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TEMPLE
Real Estate Investment Trust

2010 ANNUAL REPORT

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Unitholder Returns

	Year Ended December 31, 2010	Year Ended December 31, 2009
Distribution per unit	$0.40	$0.50
Opening unit price	$2.69	$5.00
Closing unit price	$4.02	$2.69
Annualized yield on opening price (distribution/opening unit price)	14.9%	10.0%

The trust units of Temple Real Estate Investment Trust are listed on the TSX Venture Exchange under the symbol "TR.UN". The 7.5% Series A and 8.5% Series B convertible debentures are listed on the TSX Venture Exchange under the symbol of "TR.DB.A" and "TR.DB.B", respectively. The 8.75% Senior Secured convertible debentures are listed on the TSX Venture Exchange under the symbol of TR.DB.S.

REPORT TO UNITHOLDERS

Annual Results

During 2010, Temple Real Estate Investment Trust ("Temple REIT") incurred a net loss of $2,305,116, compared to net income of $904,278 during 2009, representing a decrease in income of $3,209,394. The variance between the 2010 and 2009 year end results is mainly due to a decrease in operating income of $3,179,427, an increase financing expense of $737,838 and an increase in amortization expense of $422,242.

During 2010, cash from operating activities, before changes in non-cash operating items, decreased by $3,351,374, mainly due to the decrease in operating income of $3,179,427, as well as an increase in the cash component of financing expense of $214,629.

The Fort McMurray hotel portfolio accounted for approximately 55% of the decrease in operating income during 2010, as the hotel portfolio of Temple REIT is concentrated in the northern Alberta city. Six of the ten hotel properties of Temple REIT are located in Fort McMurray. Recessionary influences impacted the operating income of the hotel portfolio during the past two years.

	Operating Income	
Year	Fort McMurray	All Properties
2010	$10,498,605	$21,401,349
2009	$12,244,411	$24,580,776
2008	$20,721,032	$28,637,201

The reduction in operating income for the Fort McMurray hotel portfolio in 2010, compared to 2009, reflects the ongoing decline in quarterly operating income which occurred in 2009 as hotel market conditions in Fort McMurray weakened throughout the year, while, in 2010, operating income was at a low point at the beginning of the year and then began to gradually improve.

The operating income in 2008 indicates the potential of the Fort McMurray hotel portfolio when market conditions are strong.

2010 Fourth Quarter Results

After reaching a low point in the first quarter of 2010, there was a marked improvement in the operating results of Temple REIT during the second and third quarter of the year. Although a further improvement in total revenues was achieved during the fourth quarter of 2010, operating income was lower due to the seasonal reduction in demand throughout the hotel portfolio, with the exception of the Capri Centre.

A quarterly summary of operating income, net income (loss) is provided in the following chart:

Quarterly Analysis

	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Operating income	$ 5,399,103	$ 5,970,831	$ 5,159,067	$ 4,872,348
Per unit - Basic and diluted	$ 0.42	$ 0.46	$ 0.40	$ 0.38
Net income (loss)	$ (505,519)	$ (51,292)	$ (762,054)	$ (986,251)
Per unit - Basic and diluted	$ (0.04)	$ 0.00	$ (0.06)	$ (0.08)

	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Operating income	$ 5,448,887	$ 5,852,451	$ 6,501,010	$ 6,778,428
Per unit - Basic and diluted	$ 0.42	$ 0.46	$ 0.51	$ 0.53
Net income (loss)	$ (581,909)	$ (180,211)	$ 828,023	$ 838,375
Per unit - Basic and diluted	$ (0.05)	$ (0.01)	$ 0.06	$ 0.07

$20 Million Trust Unit Offering in February 2011

In February 2011, Temple REIT completed a public offering of Trust units generating gross proceeds of $20 million and net proceeds of $18.6 million after deducting agents fees and other costs.

The interest-only 12% second mortgage loan of $6,540,000 for the Merit hotel expansion, which was renewed on October 31, 2010, with a maturity date of June 30, 2011 was fully retired from the proceeds of the $20 million public offering of trust units.

The proceeds from the trust unit offering were also used to reduce the 6.83% first mortgage loan for the Clearwater Hotel by $9 million. The remaining balance of the Clearwater hotel first mortgage loan in the amount of $23,120,165 was renewed at the same terms until December 31, 2011, repayable at any time without penalty. The first mortgage loan will be upward refinanced with another lender in 2011 in order to provide funding for overall Trust operations and in particular the Capri Centre refurbishment.

After accounting for fees and transaction costs, the remaining proceeds from the trust unit offering of approximately $3 million will serve as a funding source for renovation and expansion costs at the Capri Centre.

The upgrade/improvement program at Capri Centre will also be funded from a $5.5 million additional advance on the existing first mortgage loan secured by Capri Centre.

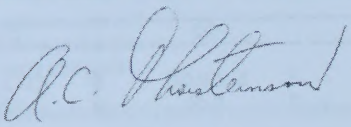
Capri Centre

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a total cost of $9.8 million with $8.6 million to be expended in 2011. The upgrade/improvement program is being undertaken as part of the process to re-brand the Capri Centre under the "Sheraton" hotel banner. The new rooms at the Capri Centre will serve as the prototype for the new room design in the Canadian market. The design stage of the upgrade/improvement program has been completed and the renovation/construction stage commenced during the second quarter of 2011. At completion the Capri Centre will be renamed the "Sheraton Red Deer Hotel and Convention Centre".

Outlook

The Temple REIT portfolio of hotel properties is located in markets where demand is directly related to the natural resource industry. In 2010, operating income and operating cash flow was well below 2008 levels and potential levels. The Fort McMurray hotel portfolio, the Capri Centre in Red Deer and the Best Western Wayside Inn in Lloydminster have recently achieved a marked improvement in occupancy levels and room revenue. Given the future projection for resource investments in Western Canada, we are confident that operating results will continue to improve during this year and next.

TEMPLE REAL ESTATE INVESTMENT TRUST



ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
April 25, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the year ended December 31, 2010 and with reference to the quarterly reports for 2010.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of Temple REIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of Temple REIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, Temple REIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither Temple REIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price/Acquisition Cost

Unless otherwise noted, all references to "purchase price(s)" or "acquisition cost(s)", as disclosed in this report, exclude closing costs and other adjustments on closing.

Appraised Value

In this management discussion and analysis, references are made to the appraised value of Temple REIT's property portfolio.

In summary, the total appraised value of the property portfolio is $286,700,000 at December 31, 2010. Appraisals of three properties, representing 31% of total appraised value, were prepared in 2010, appraisals of two properties, representing 20% of total appraised value, were prepared in 2009, appraisals of three properties, representing 32% of total appraised value, were prepared in 2008 and an appraisal of two properties, representing 17% of total appraised value were prepared in 2007.

The appraised value is based on appraisals prepared by independent appraisers. The appraisals are estimates only, are made effective as at the date set forth in the appraisal and are based on facts on the data set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisals; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that the appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2010. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2010.

Temple REIT undertakes no obligation to update the appraised value of its portfolio from time to time.

FINANCIAL AND OPERATING STATISTICS

	Year Ended December 31		
	2010	2009	2008
DISTRIBUTIONS			
Amount - total	$ 5,132,561	$ 6,410,009	$ 12,931,226
- per unit	$ 0.40	$ 0.50	$ 1.10
BALANCE SHEET			
Total Assets	$ 260,481,436	$ 269,813,482	$ 260,478,528
Total Long-Term Debt and Convertible Debentures	$ 199,029,880	$ 199,189,940	$ 187,941,446
KEY PERFORMANCE INDICATORS			
Operations:			
Occupancy *	56%	53%	74%
ADR *	$153.92	$173.74	$183.78
RevPar *	$85.55	$91.94	$135.18
Operating profit margin *	33%	37%	51%
Operating results:			
Total revenue	$ 63,901,993	$ 65,811,591	$ 56,481,296
Operating income	$ 21,401,349	$ 24,580,776	$ 28,637,201
Net income (loss)	$ (2,305,116)	$ 904,278	$ 8,708,263
Cash flows:			
Distributable income *	$ 4,191,544	$ 7,476,083	$ 14,558,662
Funds from operations *	$ 4,312,549	$ 8,187,133	$ 15,115,604
Financing:			
Weighted average interest rate of long-term debt *	6.55%	6.51%	6.34%
PER UNIT AMOUNTS	Basic and Diluted	Basic and Diluted	Basic and Diluted
Net income (loss)	$(0.18)	$0.07	$0.76
Distributable income *	$0.33	$0.58	$1.27
Funds from operations *	$0.34	$0.64	$1.31

Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with GAAP or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of Temple REIT. Temple REIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

Distributable income is a measure of cash flow that is not defined under Canadian GAAP, and accordingly, may not be comparable to similar measures used by other issuers. Distributable income is defined as net income in accordance with Canadian GAAP, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization, future income taxes (recovery) expense, the non cash portion of interest expense and a reserve for the replacement of furniture and fixtures that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Funds from Operations ("FFO") is not defined by GAAP and is a non-GAAP financial measures of operating performance which are widely used by the real estate industry. FFO has been calculated in accordance with the recommendations of Real Property Association of Canada ("RealPac")

FFO per unit and distributable income per unit have been calculated on a basis which is consistent with the method prescribed by GAAP for calculating earnings per unit.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

Temple REIT was established in order to create a portfolio of income-producing hotel properties. The core business activities of Temple REIT consist of investment, development and management activities which are focused on maximizing the return on the hotel portfolio.

As of December 31, 2010, the real estate portfolio of Temple REIT consists of ten hotel properties with a cost of approximately $265 Million, including six hotel properties located in Fort McMurray, Alberta.

A more detailed description of the operations and business strategy of Temple REIT is provided in the section of the MD&A titled "Overview of Operations and Business Strategy".

Changes in Operating/Financial Variables - 2010 vs. 2009

Hotel Properties

The 68-room expansion of the Merit Hotel provided new rooms to Temple REIT, effective August 1, 2009. Aside from the expansion of the Merit Hotel, there were no changes in the number of available rooms in the hotel portfolio of Temple REIT between January 1, 2009 and December 31, 2010.

Net Income(Loss)

During 2010, Temple REIT incurred a net loss, before taxes, of $2,661,970, compared to net income, before taxes, of $1,502,448 in 2009, representing a decrease in net income of $4,164,418. The decrease mainly reflects the net impact of the following variables:

- a decrease in operating income of $3,179,427;
- an increase in finance expense of $737,838; and
- an increase in amortization charges of $422,242.

The reduction in operating income is comprised of the following increases/decreases in operating income: Fort McMurray hotel portfolio (decrease of $1,745,806); Capri Centre (decrease of $689,946); Temple Gardens (decrease of $343,639); Best Western Wayside Inn (increase of $221,973), Chateau Nova (decrease of $184,508) and Trust operations (decrease of $437,501).

An analysis of the increase in financing expense is provided below. The increase in amortization charges mainly reflects incremental amortization charges for the Merit Hotel expansion.

Finance expense

During 2010, finance expense increased by $737,838 compared to 2009. The increase mainly reflects the net impact of the following transactions:

- On November 27, 2009, Temple REIT completed a $15 Million public offering of 8.75% senior secured convertible redeemable debentures. The increase in financing expense associated with the new debenture issue amounted to $1,678,440 during 2010, compared to 2009.
- At the beginning of 2009, Clearwater Suites was encumbered by a 6% second mortgage loan of $10 Million requiring payments of interest only. The interest rate increased to 20%, effective August 1, 2009. The second mortgage loan was partially repaid on September 7, 2009, and fully repaid in November 2009. The decrease in financing expense associated with the repayment of the loan amounted to $668,065 during 2010, compared to 2009.
- The cost of the Merit Hotel expansion of $19,040,000, excluding GST, was funded by a $500,000 cash deposit, a 12% "interest-only" mortgage loan of $14.04 Million from the builder with a maturity date of October 31, 2010 and through the issuance of 4.5% convertible mortgage debt of $4.5 Million, with a due date of October 31, 2014. As of December 31, 2009, the 12% loan from the builder loan was reduced to a balance of $7,040,000. On the maturity date of October 31, 2010, the loan was paid down to $6,540,000 and renewed until June 30, 2011 at an interest rate of 15% per annum with the condition that the interest rate would be reduced to 12% per annum if the loan is repaid prior to February 28, 2011. The loan was repaid on February 11, 2011. As the Trust complied with the terms of the prepayment option, the interest rate was reduced to 12% from the date of the renewal. The total finance expense associated with the debt of the Merit Hotel expansion was $834,098 during 2010, compared to $710,168 during 2009, representing an increase of $123,930.
- During the two year period ended December 31, 2010, Temple REIT obtained $8 Million of additional mortgage loan financing for the Temple Gardens Hotel, comprised of a $3 Million mortgage loan at an interest rate of 6.35%, obtained in September 2009 and $5 Million mortgage loan obtained in May 2010 at an interest rate of 4.32%. The total finance expense associated with the additional debt during 2010 was $301,232, compared to $48,527 during 2009, representing an increase of $252,705.

- During 2010, long-term debt principal repayments, including lump-sum payments, amounted to $6,940,936, comprised of repayments of $1,939,885, $1,336,283, $1,436,899 and $2,227,869 in the first through fourth quarters of the year, respectively. Based on the weighted average interest rate for long-term debt for each quarter, the principal repayments represent an interest reduction of approximately $220,000.

After excluding accretion and amortization charges, which are non-cash expenses, the cash component of finance expense increased by $214,629 during 2010, compared to 2009.

Cash Flow

Cash from operating activities, excluding changes in non-cash operating items, decreased by $3,351,375 during 2010, primarily due to a decrease in operating income of $3,179,427 and an increase in the cash component of finance expense of $214,629.

Distributions

During 2010, Temple REIT declared a distribution of $0.40 per unit, comprised of a quarterly distribution of $0.10 per unit. During 2009, Temple REIT declared a total distribution of $0.50 per unit.

For the first quarter of 2011, Temple REIT paid a distribution of $0.10 per unit on April 15, 2011. Effective April 1, 2011, Temple REIT has implemented a monthly distribution policy. The first monthly cash distribution in the amount of $0.033 per unit ($0.40 on an annual basis) is expected to occur on May 15, 2011 to Unitholders of record as of April 30, 2011.

Outlook for 2011

Operating Income/Operating Cash Flows

The extent to which operating income and operating cash flows improve during 2011 is largely dependent on the rate of recovery in economic conditions in Fort McMurray in particular and Alberta in general.

Improvements/Upgrades to the Capri Centre

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a budgeted cost of $9.8 million with $8.6 million to be expended in 2011. The upgrade/improvement program is being undertaken as part of the process to re-brand the Capri Centre under the "Sheraton" hotel banner. The improvements will involve new guest room designs which were created by the in-house design team for Sheraton and are based on extensive in-room behaviour research. The new rooms at the Capri Centre will serve as the prototype for the new Sheraton room design in the Canadian market. The upgrade/improvement program is expected to be completed by September 2011 at which time the Capri Centre will be renamed the "Sheraton Red Deer".

The upgrade/improvement program is expected to be partially funded from the proceeds of the unit offering in February 2011 and from the upward refinancing of mortgage loan debt, including the upward refinancing of the Capri Centre.

Financing

Trust unit offering
On February 11, 2010, Temple REIT completed a public offering of 5,000,000 trust units at a price of $4.00 per unit for gross proceeds of $20,000,000 and net proceeds of $18,643,000 after deducting agents fees and other costs.

The net proceeds from the offering were used to repay $6,540,000 of second mortgage debt, as well as a $9,000,000 principal paydown on the first mortgage at the Clearwater Hotel. The remaining proceeds are intended to be used to for general purposes and to fund a portion of the renovation and expansion costs at the Capri Hotel.

Upward Refinancing of Long-Term Debt
During 2011, the upward refinancing of mortgage loan debt is expected to serve as a key source of supplemental funding for overall operations. It is anticipated that approximately $15.5 million will be generated from upward refinancing of mortgage loan debt, comprised of the following:

- Approximately $7 million from the upward refinancing of the Clearwater hotel.
- Approximately $3 million from the upward refinancing of the long-term debt of the Temple Gardens hotel.
- Approximately $5.5 million from increased debt financing of the Capri Centre.

As of December 31, 2010, Temple REIT is in breach of the debt service coverage covenant for three mortgage loans totaling $48,092,524. In the event that any of the lenders demand repayment of the mortgage loans, the Senior Secured convertible debentures with a face value of $14.8 million may become payable, on demand, as a result of cross-default clauses. Temple REIT has resolved the loan breach in respect to a mortgage in the amount of $33,424,610 and is pursuing a resolution of the loan breaches with the two other lenders. To date, the breaches have not resulted in acceleration of the repayment of any the loans.

Key Risks and Uncertainties

The timing and extent of the economic recovery in Fort McMurray is a primary risk factor for Temple REIT, given the concentration of hotel properties in Fort McMurray. Economic conditions in Fort McMurray affect the operating cash flows of Temple REIT and the financing capabilities of the Trust. The level of operating cash flow determines the extent to which Temple REIT requires other sources of capital to fund debt repayments and capital expenditures, after funding distributions.

The renewal or refinancing of hotel mortgage loans in smaller cities encompasses a degree of risk in comparison to the availability of other mortgage loans. Management believes loan renewals can be obtained at maturity or that replacement financing can be arranged.

There are tax risks associated with the application of the SIFT Rules (as herein defined) to Temple REIT and its Unitholders, which commences in the 2011 taxation year. For a complete discussion of this risk, refer to "Taxation" below and the Tax-Related Risk Factors set out in Temple REIT's 2010 Annual Information Form.

Additional details of the key risks of Temple REIT are provided in the section of the MD&A titled "Operating Risks and Uncertainties.

LIQUIDITY/WORKING CAPITAL REQUIREMENTS

Working Capital Requirements

During 2010, Temple REIT generated cash flow from operations of $5,473,970.

The major funding requirements for Temple REIT for 2011 associated with investing or financing activities are as follows:

Capital expenditures

Temple REIT is undertaking a renovation and expansion program at the Capri Centre at a budgeted cost of $9.8 million with $8.6 million to be expended in 2011. After providing for improvements at other hotels, capital expenditures are expected to be approximately $9.5 million in 2011.

Mortgage renewals

Mortgage renewals which are scheduled in 2011 include:

- the 6.83% first mortgage loan of $32,424,610 at December 31, 2010, registered against the Clearwater Suites hotel was prepaid by $9 million on February 15, 2011 and at the March 30, 2011 due date, the balance of $23,120,165 was renewed to December 31, 2011 at the same rate. The refinancing of the mortgage loan resolved the debt covenant breach in regard to this loan.
- a 4.32% first mortgage loan of $4,838,393 at the May 1, 2011 maturity date registered against Temple Gardens Mineral Spa was renewed at the same interest rate for a one year term.
- a 5.51% first mortgage loan of $5,970,769 at the October 1, 2011 maturity date registered against Temple Gardens Mineral Spa.
- a 6.5% first mortgage loan of $5,193,348 at the November 30, 2011 maturity date registered against Chateau Nova;

Regular repayments of debt principal

Regular repayments of long-term debt for 2011 are expected to be approximately $5.2 million.

Cash distributions

Based on the units outstanding as of April 25, 2011 and assuming a declared distribution of $0.40 on an annual basis, it is estimated total cash distributions during 2011 will be $7,266,567.

Funding of Working Capital Requirements

General

The proceeds from the public offering of trust units in February 2011, combined with the existing cash resources of the Trust, the projected cash flow from operations and the upward refinancing of mortgage loan debt, are expected to be sufficient to fund the working capital requirements of Temple REIT for 2011.

Trust Unit Offering

In February 2011, Temple REIT completed a public offering of trust units generating net proceeds of approximately $18,643,000, after deducting agents' fees and other costs. The proceeds from the unit offering were utilized, as follows:

- the second mortgage loan for the Merit hotel expansion of $6,540,000 was retired in February 2011, and
- the first mortgage loan for the Clearwater Suites hotel was paid down by $9,000,000 in February 2011. The remaining balance of $23,120,165 was renewed until December 31, 2011 at an interest rate of 6.83%.

Mortgage loan financing

Clearwater Suites Hotel

Management expects that the renewed first mortgage loan for the Clearwater Suites hotel will be retired from the proceeds of a new $30 million first mortgage loan. Net proceeds from the upward refinancing are expected to be approximately $7 million.

Temple Gardens Mineral Spa

Management expects that the two mortgage loans for Temple Gardens Mineral Spa which matures on October 1, 2011 will be upward refinanced. Net proceeds from the upward financing are expected to be approximately $3.0 million.

Capri Centre

The existing first mortgage loan provides for construction advances as the expansion program progresses, which will result in a $27 million loan at the completion of construction. As a result, $5.5 million of construction advances will be available to fund renovation costs.

Chateau Nova

Management expects that the first mortgage loan at Chateau Nova will be renewed at maturity with similar terms and conditions.

In total, the net proceeds from the upward refinancing of mortgage loan debt are projected to be approximately $15.5 million.

Summary

The projected net proceeds from the upward refinancing of mortgage loan debt of approximately $13 million, combined with the remaining proceeds from the trust unit offering of $3 million and the projected improvement in cash flow from operations are expected to be sufficient to fund regular principal repayments of long-term debt, capital expenditures and distributions.

The ability of Temple REIT to complete the refinancing of mortgage loan debt to the extent anticipated is subject to uncertainty. If the Trust is unable to complete the upward refinancing of mortgage loan debt and, depending on the level of operating income, there is a risk that distributions could be reduced or suspended.

OVERVIEW OF TRUST OPERATIONS

Temple Real Estate Investment Trust ("Temple REIT")

Temple Real Estate Investment Trust ("Temple REIT") is an open-ended real estate investment trust which was formed under the laws of the Province of Manitoba on July 12, 2006, pursuant to the Declaration of Trust. Temple REIT is not a "real estate investment trust" as determined in the Income Tax Act (Canada). See "Taxation" below. The head office of Temple REIT is located at 2600 Seven Evergreen Place in Winnipeg, Manitoba.

Temple REIT was established as an investment trust for the purpose of investing, directly and indirectly, in hotel properties and assets. The primary business activity of Temple REIT is the acquisition and development of income-producing hotel properties and the active management of the acquired/developed properties.

Overall Investment Objectives and Strategy

Primary Objectives

The primary investment objectives of Temple REIT are to generate stable and growing cash distributions on a tax-efficient basis, enhance the value of Temple REIT's assets and maximize long-term unit value through the active management of its assets, and expand the asset base and increase distributable income through an accretive acquisition program.

Growth

The general strategy of Temple REIT for external growth is to pursue the acquisition of hotel properties and assets in markets across Canada, and possibly in the United States, based on an investment criteria which focuses on return of equity, security of cash flow and potential for capital appreciation. The target capitalization rate for hotel acquisitions is between 9% and 13%.

The assessment of the capital appreciation potential of targeted properties includes an evaluation of market conditions, an analysis of the available opportunities for increasing cash flows by implementing more efficient operating systems, and an examination of the potential redevelopment or expansion opportunities for the property.

The overall investment strategy of Temple REIT also encompasses the acquisition of hotels in regional clusters and of similar asset sizes in order to create economies of scale. Temple REIT also focuses on acquiring hotels in solid physical condition with minimal initial capital expenditure requirements.

The acquisition of additional hotel properties is expected to be deferred, however, until hotel market conditions improve.

Financing

The overall strategy of Temple REIT is to raise investment capital through the issuance of trust units or convertible debentures. In general, new property acquisitions will be funded by arranging new mortgage financing or assuming existing mortgage financing, with the remaining equity portion to be funded from the reserves of investment capital. The equity portion of new property acquisitions may also be partially funded by the exchange of trust units.

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting mortgage debt in the range of 60% to 70% of appraised value to maximize return on equity while maintaining cash flow stability. Temple REIT will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired on a 100% cash basis.

Temple REIT may also utilize acquisition lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

Management

Temple REIT has assembled an experienced management team in order to assist it in achieving its business objectives. The management team of Temple REIT have experience in the hotel industry and have developed key relationships with owners across North America which management believes should enable Temple REIT to gain access to a significant acquisition pipeline.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited ("Shelter"). Shelter brings real estate investment, development and asset management experience to Temple REIT. Please refer to the section of this report entitled "Related Party Transactions" for details of the remuneration of Shelter.

The hotel properties of Temple REIT are currently operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of approximately 40 properties across Canada, including hotels with the Marriott, Best Western, Comfort Inn and Holiday Inn brands. Atlific is an affiliate of Ocean Properties Ltd., one of the largest privately-owned hotel management companies in North America. Combined, Atlific and Ocean Properties have over 80 years of experience in hotel management and manage a portfolio of 100 properties. Details of the terms of the Atlific management agreements for the hotels in the Temple REIT portfolio are provided in the section of this report entitled "Hotel Management".

PROPERTY PORTFOLIO

As disclosed in the following chart, the real estate portfolio of Temple REIT consists of ten hotel properties as of December 31, 2010, comprising 1,241 rooms and with a total cost of $265 Million. Six of the hotels are located in Fort McMurray, Alberta. The four other hotels are located in Moose Jaw, Saskatchewan; Yellowknife, Northwest Territories; Lloydminster, Alberta and Red Deer, Alberta.

The six Fort McMurray hotels encompass a total of 634 rooms, or 51% of the total rooms in the hotel portfolio. Aside from the 68-room expansion of the Merit Hotel effective August 1, 2009, there were no changes in the number of available rooms in the hotel portfolio between January 1, 2009 and December 31, 2010.

Property Portfolio - December 31, 2010

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
Alberta				
Fort McMurray				
Clearwater Suite Hotel	Fort McMurray	$ 56,500,000	March 2007	150
Merit Hotel and Suites	Fort McMurray	16,000,000	April 2007	92
Merit Hotel expansion	Fort McMurray	19,040,000	August 2009	68
Franklin Suites	Fort McMurray	18,800,000	April 2007	75
Nomad Hotel	Fort McMurray	23,700,000	April 2007	139
Nomad Suites	Fort McMurray	10,000,000	April 2007	27
Vantage Inn & Suites	Fort McMurray	19,400,000	January 2008	83
		163,440,000		634
Other				
Best Western Wayside Inn & Suites	Lloydminster	22,500,000	June 2008	130
Capri Centre	Red Deer	40,000,000	December 2008	218
		225,940,000		982
Northwest Territories				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
Saskatchewan				
Temple Gardens Mineral Spa Resort Hotel	Moose Jaw	26,102,670	October 2006	179
Total		$ 265,042,670		1,241

The operations of Temple Gardens hotel also encompass a 50% co-ownership agreement in regard to a 23,400 square foot casino complex which is located directly across from the Temple Gardens hotel. The casino complex, which is known as "Casino Moose Jaw", is subject to a 25-year lease under which the tenant is responsible for all costs associated with the leased premises, including structural or foundation repairs or replacement. Income derived from the co-ownership interest in the casino is included in "interest and other income".

RESULTS OF OPERATIONS

Summary of Quarterly Results

Quarterly Analysis

	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Total revenue	$ 16,765,110	$ 16,401,067	$ 15,754,121	$ 14,981,017
Operating income	$ 5,399,103	$ 5,970,831	$ 5,159,067	$ 4,872,348
Net income (loss)	$ (505,519)	$ (51,292)	$ (762,054)	$ (986,251)
PER UNIT				
Operating income				
- Basic	$ 0.42	$ 0.46	$ 0.40	$ 0.38
- Diluted	$ 0.42	$ 0.46	$ 0.40	$ 0.38
Net income (loss)				
- Basic	$ (0.04)	$ 0.00	$ (0.06)	$ (0.08)
- Diluted	$ (0.04)	$ 0.00	$ (0.06)	$ (0.08)
Operating Statistics				
- Occupancy	55%	61%	55%	51%
- ADR	$ 149.00	$ 152.97	$ 155.18	$ 158.97
- RevPar	$ 81.85	$ 92.83	$ 86.05	$ 81.46

	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Total revenue	$ 16,123,722	$ 15,639,078	$ 16,780,369	$ 17,268,422
Operating income	$ 5,448,887	$ 5,852,451	$ 6,501,010	$ 6,778,428
Net income (loss)	$ (581,909)	$ (180,211)	$ 828,023	$ 838,375
PER UNIT				
Operating income				
- Basic	$ 0.42	$ 0.46	$ 0.51	$ 0.53
- Diluted	$ 0.42	$ 0.46	$ 0.51	$ 0.53
Net income (loss)				
- Basic	$ (0.05)	$ (0.01)	$ 0.06	$ 0.07
- Diluted	$ (0.05)	$ (0.01)	$ 0.06	$ 0.07
Operating Statistics				
- Occupancy	50%	55%	54%	53%
- ADR	$ 164.45	$ 169.73	$ 175.52	$ 185.26
- RevPar	$ 81.42	$ 92.95	$ 94.80	$ 98.57

From a general perspective, the quarterly results of Temple REIT, as disclosed in the preceding chart, reflect the gradual impact of recessionary influences on operating results during 2009 and into 2010. Other main factors which have affected the quarterly results include the completion of Merit Hotel expansion in the third quarter of 2009 and seasonal fluctuations in demand at the hotels, particularly for the Fort McMurray portfolio where there is typically a reduction in demand during July, August and December.

During the second quarter of 2009, the operating income of Temple REIT decreased by $277,418, compared to the first quarter of 2009. The decrease is primarily due to a decrease in operating income from the Capri Centre, partly offset by an increase in operating income from Temple Gardens and Chateau Nova. Net income was virtually unchanged during the second quarter of 2009, compared to the first quarter of 2009, as the decrease in operating income was almost entirely offset by a decrease in financing expense and an increase in the value of marketable securities.

During the third quarter of 2009, operating income decreased by $648,559, compared to the second quarter of 2009, mainly due to a decrease in "other" hotel revenue at the Capri Centre, partially offset by a decrease in hotel operating costs. Net income decreased by $1,008,234 during the third quarter of 2009, mainly due to the decrease in operating income, combined with an increase in financing expense associated with the new mortgage debt for the Merit Hotel expansion and an increase in the interest rate on the second mortgage loan of the Clearwater Suites hotel.

During the fourth quarter of 2009, operating income decreased by $403,564, compared to the third quarter of 2009. The decrease is mainly due to a decrease in room revenue from the Fort McMurray hotel portfolio, as a result of a decrease in occupancy levels and room rates. After accounting for the decrease in operating income and a combined increase in financing, trust and amortization expenses of $402,704, the net loss increased by $401,698 during the fourth quarter of 2009.

During the first quarter of 2010, operating income decreased by $576,539, compared to the fourth quarter of 2009. The decrease is mainly due to a decrease in room revenue and other hotel revenue at the Capri Centre and the Best Western Wayside Inn. After accounting for other variables, including an increase of $95,925 associated with the change in marketable securities and a positive variance of $101,832 in regard to income taxes, the net loss increased by $404,342 during the first quarter of 2010.

During the second quarter of 2010, operating income increased by $286,719, compared to the first quarter of 2010, mainly due to a increase in operating income for the Fort McMurray hotel portfolio and the Best Western Wayside Inn, partially offset by a decrease in operating income at the Capri Centre. After accounting for the increase in operating income and the net decrease in financing, trust and amortization expenses of $215,971, the net loss decreased by $224,197 during the second quarter of 2010.

During the third quarter of 2010, operating income increased by $811,764, compared to the second quarter of 2010, mainly due to a increase in operating income throughout the hotel portfolio, with the exception of the Capri Centre. After accounting for the increase in operating income and the net decrease in financing, trust and amortization expenses of $107,019, the net loss decreased by $710,762 during the third quarter of 2010.

During the fourth quarter of 2010, operating income decreased by $571,728, compared to the third quarter of 2010, mainly due to a decrease in operating income at Temple Gardens Mineral Spa and the Fort McMurray hotel portfolio, partially offset by an increase in operating income at the Capri Centre. After accounting for the decrease in operating income and the net increase in financing, trust and amortization expenses of $144,728, the net loss increased by $454,227 during the fourth quarter of 2010.

After considering the quarterly results for the entire year in 2010, the operating income of Temple REIT decreased by $3,179,427, compared to 2009, and net income decreased by $3,209,394.

Detailed Analysis of Operating Results

Analysis of Net Income (loss) *

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Hotel revenue			
Room	$ 38,803,869	$ 40,493,644	$ (1,689,775)
Other	23,143,446	22,640,830	502,616
Total hotel revenue	61,947,315	63,134,474	(1,187,159)
Interest and other income	1,954,678	2,677,117	(722,439)
Total revenue	63,901,993	65,811,591	(1,909,598)
Hotel operating costs	42,500,644	41,230,815	1,269,829
Operating income	21,401,349	24,580,776	(3,179,427)
Finance expense	16,259,269	15,521,431	737,838
Trust expense	770,047	709,711	60,336
Amortization	6,981,053	6,558,811	422,242
	(2,609,020)	1,790,823	(4,399,843)
Change in marketable securities	(52,950)	(288,375)	235,425
Income taxes expense (recovery)	(356,854)	598,170	(955,024)
Net income (loss)	$ (2,305,116)	$ 904,278	$ (3,209,394)

* The analysis of net income (loss) represents the reformatting of balances from the Consolidated Statements of Income (loss) and Comprehensive Income (loss), per the financial statements of Temple REIT, in order to provide amounts which correspond to the analysis in this report. All of the amounts in the analysis agree to the financial statements with the following exceptions:

(i) the analysis separates "hotel revenue" into two components, namely "room revenue" and "other hotel revenue";
(ii) the analysis combines the "current" and "future" component of income taxes into one line;
(iii) the analysis provides a sub-total for income before change in marketable securities and taxes; and
(iv) the analysis does not provide a sub total for "income before taxes".

Overall Results

In comparison to 2009, the income of Temple REIT, before taxes and the change in value of marketable securities, decreased by $4,399,843 during 2010.

The decrease is mainly due to a decrease in operating income of $3,179,427, an increase in financing expense of $737,838 and an increase in amortization expense of $422,242. Trust expense also increased by $60,336.

After providing for taxes and the change in value of marketable securities, Temple REIT completed 2010 with a loss of $2,305,116, compared to net income of $904,278 in 2009, representing a decrease of $3,209,394.

Revenue

Hotel Market Conditions

Market influences continued to impact the operating results for most of the Temple REIT hotels during 2010. Competitive hotel market conditions in Fort McMurray had a more pronounced impact on overall revenue results, given the extent to which the Temple REIT hotel portfolio is concentrated in Fort McMurray.

During 2009, there was a time lag between the decline in general economic conditions and the slowdown of development projects in the oil sands industry in Fort McMurray. The delayed impact of the economic downturn on hotel bookings, combined with seasonal reductions in demand in July, August and December, resulted in a gradual decline in hotel revenue for the Fort McMurray hotel portfolio during 2009. During 2009, the RevPar of the Fort McMurray hotel portfolio decreased from $114.74 in this first quarter of the year to $108.13, $99.58 and $84.70 during the second, third and fourth quarters of the year, respectively. The RevPar of the Fort McMurray hotel portfolio for the entire year in 2009 was $101.79.

Although the RevPar for the Fort McMurray hotel portfolio decreased to $88.43 in 2010, there was an upward trend in the quarterly results during the first three quarters of the year with RevPar increasing from $87.77 in the first quarter of 2010 to $90.69 and $93.50 during the second and third quarters of the year, respectively. During the fourth quarter of 2010, RevPar for the Fort McMurray decreased to $81.76. The decrease in RevPar in the fourth quarter of 2010 reflects the normal seasonal fluctuation in demand.

The 2009 slowdown of development activity in the oil sands industry affected the rental real estate market in Fort McMurray and resulted in competitive market conditions in regard to attracting and retaining individuals who are seeking accommodations in the city. In addition to competition from other hotels, the increased availability of furnished apartment suites, the leasing of apartment suites on a month-to-month basis and an increase in the capacity at construction crew camps have resulted in an accommodation market which is price sensitive and competitive.

Total Revenue

Analysis of Total Revenues

	Year Ended December 31				
	2010		2009		Increase/
	Amount	% of Total	Amount	% of Total	(Decrease)
Hotel revenue					
Room	$ 38,803,869	61 %	$ 40,493,644	62 %	$ (1,689,775)
Other	23,143,446	36 %	22,640,830	34 %	502,616
Subtotal	61,947,315	97 %	63,134,474	96 %	(1,187,159)
Interest and other income	1,954,678	3 %	2,677,117	4 %	(722,439)
Total	$ 63,901,993	100 %	$ 65,811,591	100 %	$ (1,909,598)

The revenue of Temple REIT is comprised of "hotel revenue" and "interest and other income". Hotel revenue is comprised of "room revenue" and "other hotel revenue".

As disclosed in the preceding chart, room revenue is the primary source of revenue for Temple REIT, although "other" hotel revenue also represents a significant component of total revenue. During 2010, room revenue and other hotel revenue accounted for 61% and 36% of total revenue, respectively, compared to 62% and 34% during 2009.

As discussed in the following sections of the MD&A, the relative significance of other hotel revenue also varies considerably between hotels and is a major factor affecting hotel profit margins.

As disclosed in the preceding chart, total revenue decreased by $1,909,598 during 2010, compared to 2009, comprised of a $1,187,159 decrease in hotel revenue and a $722,439 decrease in interest and other revenue. The decrease in hotel revenue is comprised of a $1,689,775 decrease in room revenue and a $502,616 increase in other hotel revenue.

Hotel Revenue

Analysis of Total Hotel Revenues

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Fort McMurray			
Room revenue	$ 20,546,913	$ 22,842,770	$(2,295,857)
Other hotel revenue	947,866	879,231	68,635
	$ 21,494,779	$ 23,722,001	$(2,227,222)
Temple Gardens Mineral Spa			
Room revenue	8,103,495	$ 8,142,168	(38,673)
Other hotel revenue	4,649,691	4,738,204	(88,513)
	$ 12,753,186	$ 12,880,372	$ (127,186)
Chateau Nova			
Room revenue	2,091,739	$ 2,202,512	(110,773)
Other hotel revenue	22,008	34,402	(12,394)
	$ 2,113,747	$ 2,236,914	$ (123,167)
Best Western Wayside Inn			
Room revenue	3,504,651	$ 3,051,972	452,679
Other hotel revenue	3,234,456	2,964,828	269,628
	$ 6,739,107	$ 6,016,800	$ 722,307
Capri Centre			
Room revenue	4,557,071	$ 4,254,222	302,849
Other hotel revenue	14,289,425	14,024,165	265,260
	$ 18,846,496	$ 18,278,387	$ 568,109
Total			
Room revenue	$ 38,803,869	$ 40,493,644	$(1,689,775)
Other hotel revenue	23,143,446	22,640,830	502,616
Total hotel revenue	$ 61,947,315	$ 63,134,474	$(1,187,159)

Room Revenue

Room revenue decreased by $1,689,775 or 4% during 2010, compared 2009. The decrease in room revenue mainly reflects a decrease in room revenue from the Fort McMurray hotel portfolio, partially offset by an increase in room revenue from the Best Western Wayside Inn and the Capri Centre. As disclosed in the previous chart, the room revenue from the Fort McMurray hotel portfolio decreased by $2,295,860 during 2010, compared to 2009.

As disclosed in the following chart, the Revenue per Available Room ("RevPar") for the Fort McMurray hotel portfolio decreased by $13.36 during 2010, mainly due to a decrease in the average daily room rate (ADR). RevPar for the Best Western Wayside Inn and the Capri Centre increased by $9.55 and $4.12, respectively during 2010, compared to 2009. The increase in RevPar at the Best Western Wayside Inn is mainly due to an increase in the occupancy level while the increase in RevPar at the Capri Centre reflects an increase in occupancy level, partially offset by a decrease in ADR.

Room Revenue Statistics

	Year Ended December 31					
	2010			2009		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	53 %	$ 167.10	$ 88.43	51 %	$ 200.12	$ 101.79
Temple Gardens	77 %	$ 160.83	$ 124.17	79 %	$ 157.22	$ 124.64
Chateau Nova	53 %	$ 135.39	$ 71.69	52 %	$ 146.01	$ 75.60
Best Western Wayside Inn	59 %	$ 126.66	$ 74.32	51 %	$ 127.01	$ 64.77
Capri Centre	47 %	$ 123.18	$ 57.60	40 %	$ 134.15	$ 53.48
Overall Portfolio	56 %	$ 153.92	$ 85.55	53 %	$ 173.74	$ 91.94

The occupancy level (Occ) is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. The average daily rate (ADR) is a non GAAP measure commonly used in the hotel industry to evaluate hotel operations and is calculated by dividing total room revenue by the number of rooms rented.

RevPar is a non-GAAP measurement which is commonly used within the hotel industry to evaluate hotel operations and is generally considered to be the leading indicator of operating performance. RevPar is calculated by multiplying the average daily room rate ("ADR") by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel service.

Other Hotel Revenue

"Other hotel revenue" includes food and beverage revenue, spa revenue, video lottery terminal revenue, parking and gift shop revenue. Hotels which encompass more extensive amenities, such as lounges, restaurants, liquor stores or banquet and conference facilities, generate a higher amount of "other hotel revenue", in comparison to the other hotels.

As reflected in the "Hotel Revenue Analysis" chart, there are three hotels which generate proportionately higher levels of other hotel revenue, namely the Capri Centre, the Temple Gardens Hotel and the Best Western Wayside Inn. The Capri Centre, which is the highest contributor to other hotel revenue, has numerous income-generating amenities, including a 53,110 square foot conference centre, three restaurants, three lounges, a leased gift shop, clothing store and hair salon and a free-standing liquor store. During 2010, the total contribution to hotel revenue by the Capri Centre amounted to $18,846,496, of which $14,289,425 or 76% was attributable to "other hotel revenue".

During 2010, other hotel revenue increased by $502,616 or 2%, compared to 2009. The increase in other hotel revenue mainly reflects an increase in other hotel revenue at the Best Western Wayside Inn, Capri Centre and the Fort McMurray hotel portfolio, partially offset by a decrease in other hotel revenue from Temple Gardens Mineral Spa. The increase in other hotel revenue at the Best Western Wayside Inn and the Capri Centre reflects the improvement in the occupancy level of the hotels. The Best Western Wayside Inn also assumed management of the hotel restaurant operations during the third quarter of 2010 which contributed to the increase in other hotel revenue. The increase in revenue from the restaurant was partially offset by a decrease in revenue from the liquor sales as a result of increased competition with a major retail chain that entered the local liquor market.

Hotels with a higher proportion of other hotel revenue, such as Capri Centre, also tend to have a lower overall profit margin due to the comparatively high level of operating costs which are directly related to the income-generating amenities of the hotel. Increases or decreases in other hotel revenue also typically result in proportionately higher increases or decreases in hotel operating costs, due to the revenue/cost relationship.

As disclosed in the following sections of this report, the operating cost increase at the Capri Centre exceeded the total increase in hotel revenue by $718,419 during 2010.

Interest and Other Income

Interest and other income consists of interest and other income related to hotel operations, as well as interest and other income related to general Trust "operations". Interest and other income from hotel operations consists primarily of income related to the co-ownership interest of the Temple Gardens hotel in the "Casino Moose Jaw", interest income on the operating cash balances of the hotel properties and miscellaneous hotel income. Interest and other income related to general Trust operations includes interest income on the excess cash reserves of the Trust, interest income on mortgage loans receivable and interest income on defeasance assets.

During 2010, "Interest and Other Income" decreased by $722,439, compared to 2009, of which $437,501 or 61% is attributable to general trust operations. The decrease in interest and other income related to general Trust operations is mainly attributable to a decrease in interest income on mortgage loan receivable as a result of the collection of the mortgage loan receivable in September 2009.

Hotel Operating Costs

Hotel operating costs include all costs related to the operation of the hotel properties, including asset management fees pertaining to the gross revenues of the hotel properties. Expenses related to the overall administration and management of the Trust, including legal, audit and securities commission fees are classified as "Trust" expenses. An analysis of hotel operating costs is provided below.

Analysis of Operating Expenses

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Fort McMurray			
Operating costs	$ 9,581,570	$ 9,659,081	$ (77,511)
Property taxes and insurance	1,318,472	1,656,837	(338,365)
Fees	799,831	968,191	(168,360)
	$ 11,699,873	$ 12,284,109	$ (584,236)
Temple Gardens			
Operating costs	8,437,672	8,373,284	64,388
Property taxes and insurance	812,476	785,991	26,485
Fees	520,161	525,684	(5,523)
	$ 9,770,309	$ 9,684,959	$ 85,350
Chateau Nova			
Operating costs	1,453,042	1,380,509	72,533
Property taxes and insurance	162,812	160,218	2,594
Fees	87,176	94,461	(7,285)
	$ 1,703,030	$ 1,635,188	$ 67,842
Best Western Wayside Inn			
Operating costs	4,463,218	4,080,585	382,633
Property taxes and insurance	159,495	159,099	396
Fees	301,381	270,065	31,316
	$ 4,924,094	$ 4,509,749	$ 414,345
Capri Centre			
Operating costs	13,190,285	12,048,399	1,141,886
Property taxes and insurance	517,139	482,446	34,693
Fees	695,914	585,965	109,949
	$ 14,403,338	13,116,810	$ 1,286,528
Total			
Operating costs	$ 37,125,787	$ 35,541,858	$ 1,583,929
Property taxes and insurance	2,970,394	3,244,591	(274,197)
Fees	2,404,463	2,444,366	(39,903)
Total hotel operating costs	$ 42,500,644	$ 41,230,815	$ 1,269,829

Notes:

(1) Cost of Sales consists primarily of variable costs which are directly associated with revenues generated from hotel sales. Cost of Sales also includes bad debt expense. Administrative costs include employees wages and administrative office expenses.

(2) Fees include asset management fees related to the gross revenue of the hotel properties and property management fees, as follows:

Analysis of Fees included in Operating Expenses

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Atlific property management fees	$ 1,444,321	$ 1,463,979	$ (19,658)
Shelter asset management fees	960,143	980,387	(20,244)
Total	$ 2,404,464	$ 2,444,366	$ (39,902)

During 2010, hotel operating costs increased by $1,269,829, compared to 2009. As disclosed in the analysis of operating expenses chart, the increase is mainly due to a increase in operating costs at the Capri Centre and the Best Western Wayside Inn, partially offset by a decrease in costs for the Fort McMurray hotel portfolio.

During 2010, operating expenses at the Capri Centre increased by $1,286,528 or 10%, while hotel revenues increased by $568,109 or 3%. The increase in operating costs is mainly due to higher labour costs dues to inflationary wage rate adjustments and an increase in utility costs as a result of rate increases. The cost increases were partially offset by a decrease in liquor store costs of sales related to a decrease in revenue at the liquor store during the period.

Operating Income and Profit Margin

Operating Income and Profit Margin

	Operating Income Amount Year Ended			Operating Profit Margin Year Ended	
	Dec 31 2010	Dec 31 2009	Increase/ (Decrease)	Dec 31 2010	Dec 31 2009
Fort McMurray	$ 10,498,605	$ 12,244,411	$ (1,745,806)	47 %	50 %
Temple Gardens	3,377,257	3,720,896	(343,639)	26 %	28 %
Chateau Nova	476,366	660,874	(184,508)	22 %	29 %
Best Western W.I.	2,109,596	1,887,623	221,973	30 %	30 %
Capri Centre	4,924,260	5,614,206	(689,946)	25 %	30 %
Total portfolio	21,386,084	24,128,010	$ (2,741,926)	33 %	37 %
Trust operations	15,265	452,766	(437,501)		
Total	$ 21,401,349	$ 24,580,776	$ (3,179,427)		

After accounting for the decrease in total revenues and the increase in hotel operating costs, the operating income of the Trust decreased by $3,179,427 or 13%, compared to 2009. The decrease in operating income is attributable to a decrease in operating income throughout the hotel portfolio with the exception of the Best Western Wayside Inn. The most significant decreases in operating income occurred at the Fort McMurray hotel portfolio and the Capri Centre. In general terms, the decrease in operating income for the Fort McMurray portfolio is mainly due to a decrease in room revenue while the decrease in operating income at the Capri Centre is mainly due to an increase in operating costs.

As disclosed in the preceding chart, the overall profit margin of the entire hotel portfolio decreased from 37% to 33% in 2010.

Change in Marketable Equity Securities

The marketable equity securities of Temple REIT consist of trust units in two Canadian hotel REIT's, the majority of which were purchased in the second half of 2008.

Investments in marketable equity securities are recorded at fair value. Accordingly, at the end of each quarter, the carrying value of marketable equity securities is adjusted to reflect changes in fair value. The reduction in the carrying value, is net of distributions received on the securities. A decrease in the carrying value of the marketable equity securities is recorded as a loss, while an increase in the carrying value is recorded as income.

As of December 31, 2010, the carrying value of marketable equity securities decreased by $52,950 compared to the carrying value as of December 31, 2009. As a result, a loss of $52,950 was recorded for 2010. In comparison, the operating results for 2009 include a loss of $288,375 associated with the decrease in the carrying value of marketable equity securities. Overall, the net impact of the change in the carrying value is to increase income during 2010 by $235,425, compared to 2009.

The change in the value of the marketable equity securities is a non-cash transaction, and does not affect the cash from operating activities of the Trust.

Finance Expense

Total Finance Expense

The majority of the finance expense of Temple REIT pertains to long-term debt and convertible debenture debt. During 2010, finance expense in regard to long-term debt and convertible debenture debt accounted for 71% and 28% of the total finance expense of the Trust respectively, compared to 79% and 19% during 2009. The increase in the relative percentage of convertible debenture debt is due to the $15 million, 8.75% convertible debenture offering in November 2009.

Finance expense encompasses interest expense on long-term debt and convertible debentures, defeased loan interest, the accretion of the debt component of the convertible debentures and the convertible mortgage loan, as well as amortization charges for transaction costs. Accretion on debt and amortization charges for transaction costs are non-cash expenses. During 2010, the "non-cash" component of financing expense represented 13% of the total finance expense compared to 10% during 2009.

As disclosed in the following analysis, total finance expense increased by $737,838 or 5% during 2010, compared to 2009. The increase is mainly attributable to an increase in financing expense for debenture debt, partially offset by a decrease in finance expense on long-term debt and the defeasance loan.

Analysis of Finance Expense

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Long-term Debt			
Interest on long-term debt	$ 10,899,001	$11,540,203	$ (641,202)
Accretion on the debt component of convertible mortgage	84,177	35,490	48,687
Amortization of transaction costs	596,137	670,424	(74,287)
Subtotal	11,579,315	12,246,117	(666,802)
Defeasance Loan			
Interest	64,172	280,129	(215,957)
Amortization of transaction costs	14,664	41,389	(26,725)
Total - mortgage loans	78,836	321,518	(242,682)
Debentures			
Interest on convertible debentures	3,180,531	2,108,743	1,071,788
Accretion of debt component	1,019,637	632,346	387,291
Amortization of transaction costs	400,950	212,707	188,243
Total - debentures	4,601,118	2,953,796	1,647,322
Total - finance expense	$ 16,259,269	$15,521,431	$ 737,838
Interest expense	$ 14,143,704	$13,929,075	$ 214,629
Non-cash expense	2,115,565	1,592,356	523,209
Total - finance expense	$ 16,259,269	$15,521,431	$ 737,838

Interest Expense

The cash component of finance expense is comprised of interest expense on long-term debt, convertible debentures and the defeased loan.

Long-term Debt

Interest expense on long-term debt decreased by $641,202 or 6%, during 2010, compared to 2009. The decrease in interest on long-term debt mainly reflects the repayment of the $10 Million second mortgage loan of Clearwater Suites hotel in September and November 2009 and the reduction of mortgage loan debt through lump-sum or regular monthly principal repayments, partially offset by the incremental interest on the mortgage loan debt for the Merit Hotel expansion and the additional mortgage loan debt for the Temple Gardens Hotel. The additional mortgage loan debt for the Temple Gardens hotel is comprised of $3 Million of 6.35% first mortgage loan debt obtained in September 2009 and $5 Million of 4.32% mortgage loan debt obtained in May 2010.

Convertible Debentures

Interest expense on convertible debenture debt increased by $1,071,788 or 51% during 2010, compared to 2009. The increase mainly reflects incremental interest related to the 8.75% senior secured convertible debenture offering of $15 Million in November 2009.

Additional information regarding the mortgage loans and convertible debentures of the Trust is provided in the section of this report entitled "Capital Structure".

Defeased Loan

Interest expense on the defeased loan decreased by $215,957 during 2010, compared to 2009, as the defeased loan was extinguished effective April 1, 2010. Interest income on defeasance assets also decreased by $112,360 during 2010.

Transaction costs

Transaction costs related to long-term debt are capitalized and expensed through amortization charges. Amortization charges represent a "non-cash" expense and are excluded from the determination of cash flow from operating activities. The actual cash outlay in regard to transaction costs is included in the determination of cash flow from financing activities. During 2010, expenditures on transaction costs amounted to $120,157 compared to $1,442,759 during 2009.

Trust Expense

Analysis of Trust Expenses

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Professional and legal fees	$ 290,125	$ 201,279	$ 88,846
TSX and other reporting/filing fees	87,142	113,070	(25,928)
Other administrative costs	188,738	326,941	(138,203)
Shelter asset management fees (1)	3,523	17,392	(13,869)
Sub-total	569,528	658,682	(89,154)
Unit based compensation	200,519	51,029	149,490
Total - trust expense	$ 770,047	$ 709,711	$ 60,336

(1) The asset management fees paid to Shelter are apportioned between Operating Expenses and Trust Expense.

General

The trust expense of Temple REIT consists of professional and legal fees, general administrative expenses related to overall Trust expenses, unit-based compensation expense, regulatory and filing fees charged by the TSX Venture Exchange and a small portion of the asset management fees of Shelter (i.e. asset management fees related to the gross revenue from general Trust operations). As previously discussed, the majority of asset management fees are included in hotel operating costs.

Trust expense increased by $60,336 or 9% during 2010, compared to 2009. The increase mainly reflects an increase in unit based compensation expense and professional fees, partially offset by a decrease in other administrative costs.

The increase in unit based compensation expense reflects the granting of options to purchase units under the Unit Option Plan of the Trust. During the first quarter of 2010, Temple REIT granted options to purchase 80,000 units at $3.01 per unit and during the fourth quarter of 2010, Temple REIT granted options to purchase 25,000 units at $3.93 per unit. The fair value associated with the unit options of $139,187 is reflected in unit-based compensation expense. The Trust did not grant any options to purchase under the Unit Option Plan in 2009.

The increase in professional fees is mainly due to fees which were incurred in regard to a review of income tax issues, as well as an increase in audit and other accounting fees.

The decrease in other administrative costs is mainly due to a decrease in costs related to terminated acquisitions, partially offset by an increase in Trustee fees.

Trustee Compensation

The independent Trustees of Temple REIT receive annual compensation, based on a pre-established fee schedule, for serving on the Board, acting as a Committee Chair, and attending meetings. The total fees for 2010 and 2009 amounted to $179,932 and $145,079 respectively.

Under the Deferred Unit Plan, Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. In general terms, the number of deferred units granted is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable.

During 2010, 21,538 deferred units were issued to Trustees under the Deferred Unit Plan, at weighted average market value of $2.85 per unit, representing a total value of $61,332 or 34% of the total Trustees fees of $179,932. Trustee fees paid in the form of deferred units are reflected in "unit-based compensation". Trustee fees paid in cash are reflected in "other administrative costs".

Additional information regarding the Unit Option Plan and Deferred Unit Plan are disclosed in Note 16 and Note 17 of the 2010 audited financial statements of Temple REIT.

Amortization

During 2010, amortization charges increased by $422,242, compared to 2009. The increase in amortization expense mainly reflects incremental amortization charges related to the expansion of the Merit Hotel.

COMPARISON TO PRIOR QUARTER

Analysis of Net Income - Q4 2010 vs. Q3 2010

	Three Months Ended		Increase
	Q4 2010	Q3 2010	(Decrease)
Hotel revenue			
Room	$ 9,444,728	$ 10,595,157	$ (1,150,429)
Other	6,892,646	5,294,620	1,598,026
Total hotel revenue	16,337,374	15,889,777	447,597
Interest and other income	428,414	511,290	(82,876)
Total revenue	16,765,788	16,401,067	364,721
Hotel operating expenses	11,366,685	10,430,236	936,449
Operating income	5,399,103	5,970,831	(571,728)
Finance expense	4,119,846	4,064,614	55,232
Trust expense	137,705	48,952	88,753
Amortization	1,746,085	1,745,342	743
	(604,533)	111,923	(716,456)
Increase (decrease) in value of marketable securities	18,300	(48,600)	(66,900)
Income taxes expense (recovery)	(80,714)	114,615	195,329
Net loss	$ (505,519)	$ (51,292)	$ (454,227)

As disclosed in the preceding chart, income before taxes and the change in value of marketable equity securities, decreased by $716,456 during the fourth quarter of 2010, compared to the third quarter of 2010. The decrease in income mainly reflects a decrease in operating income and, to a much lesser extent, an increase in Trust and finance expense.

During the fourth quarter of 2010, operating income decreased by $571,728 or 10%. The decrease in operating income is mainly due to a decrease in operating income at the Fort McMurray Hotel portfolio and Temple Gardens Hotel, partially offset by an increase in operating income at the Capri Centre.

The decrease in operating income for the Fort McMurray hotel portfolio and the Temple Gardens Hotel is mainly due to a decrease in room revenue or, more specifically a decrease in occupancy levels. As disclosed in the following chart, with the exception of the Capri Centre, occupancy levels declined throughout the hotel portfolio during the fourth quarter of 2010. In general terms, the decrease in occupancy levels is mainly due to the seasonal reduction in demand which is typically associated with the hotels in the last quarter of the year. After considering the overall decrease in occupancy levels and the overall decrease in the average daily room rates, the RevPar of the hotel portfolio was $81.85 per room during the fourth quarter of 2010, compared to $92.83 per room during the third quarter of 2010.

Room Revenue Statistics

	Three Months Ended					
	Q4 2010			Q3 2010		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	52 %	$ 157.95	$ 81.76	56 %	$ 167.86	$ 93.50
Temple Gardens	73 %	$ 161.15	$ 116.89	84 %	$ 161.72	$ 135.68
Chateau Nova	47 %	$ 135.43	$ 63.92	64 %	$ 127.59	$ 82.00
Best Western Wayside Inn	66 %	$ 126.60	$ 83.43	74 %	$ 129.60	$ 96.12
Capri Centre	50 %	$ 127.40	$ 63.61	45 %	$ 119.53	$ 54.23
Overall portfolio	55 %	$ 149.00	$ 81.85	61 %	$ 152.97	$ 92.83

During the fourth quarter of 2010, Trust expense increased by $88,753 compared to the third quarter of 2010, while finance expense increased by $55,232. The increase in finance expense mainly reflects an increase in mortgage interest expense on the co-owned Moose Jaw Casino property as a result of a year end accrual. The increase in Trust expense mainly reflects an increase in "other administrative costs" and "unit-based compensation".

ANALYSIS OF CASH FLOWS

Operating

	Year Ended December 31		
	2010	2009	Increase/ (Decrease)
Total revenue	$63,901,993	$65,811,591	$ (1,909,598)
Hotel operating costs	42,500,644	41,230,815	1,269,829
Operating Income	21,401,349	24,580,776	(3,179,427)
Financing expense	16,259,269	15,521,431	737,838
Non-cash component of financing expense	(2,115,565)	(1,592,356)	(523,209)
Cash component of financing expense	14,143,704	13,929,075	214,629
Trust expense	770,047	709,711	60,336
Unit-based compensation	(200,519)	(51,029)	(149,490)
Cash component of trust expense	569,528	658,682	(89,154)
Current income taxes	260,003	213,530	46,473
Cash provided by operating activities, before changes in non-cash operating activities	6,428,114	9,779,489	(3,351,375)
Changes in non-cash operating items	(954,144)	1,759,824	(2,713,968)
Cash provided by operating activities	$ 5,473,970	$11,539,313	$ (6,065,343)

Cash from Operating Activities

During 2010, Temple REIT generated cash from operating activities of $5,473,970, compared to $11,539,313 during 2009. After excluding changes in non-cash operating items, cash from operating activities amounted to $6,428,114, representing a decrease of $3,351,375 compared to 2009. The decrease mainly reflects a decrease in operating income of $3,179,427 and an increase in the cash component of financing expense of $214,629. An analysis of the cash component of finance expense (ie. interest expense) is provided in a preceding section of this report.

The following chart compares cash from operations to the regular monthly debt service requirements:

	Year Ended December 31	
	2010	2009
Cash from operations before changes in non-cash operating items	$ 6,428,114	$ 9,779,489
Less: Repayment of scheduled long-term debt	(5,785,936)	(5,408,023)
Cash flow after regular monthly debt service	$ 642,178	$ 4,371,466

Funds From Operations ("FFO")

FFO is a non-GAAP measurement of the cash generating abilities of an entity which is widely used by the real estate industry. As disclosed in the following chart, the FFO of Temple REIT was $4,312,549 or $0.34 per unit during 2010, compared to $8,187,133 or $0.64 per unit during 2009.

The FFO calculation is in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). Readers are cautioned that the method which is used by Temple REIT for calculating FFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Funds from Operations

	Year Ended December 31	
	2010	2009
Net income (loss)	$ (2,305,116)	$ 904,278
Add:		
Future income taxes (recovered)	(616,857)	384,640
Unit-based compensation	200,519	51,029
Change in value of marketable securities	52,950	288,375
Amortization	6,981,053	6,558,811
Funds from operations	$ 4,312,549	$ 8,187,133
Funds from operations - Per unit - basic and diluted	$0.34	$0.64

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by GAAP and, therefore, the method that is used by Temple REIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable GAAP measurement of the cash flows of Temple REIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash from operating activities and distributable income is provided in the chart below.

Distributable income does not represent the amount of cash which is available for distribution. As disclosed in the discussion of "capital requirements" in the following sections of this report, Temple REIT requires an additional source of cash to the extent that operating cash flow is not sufficient to fund mortgage loan principal payments, capital expenditures and distributions.

As disclosed in the chart, the distributable income of Temple REIT is equal to cash provided by operating activities, net of changes in non-cash operating items, after deducting a reserve for the replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve"). The reserve represents 3.5% of the gross revenue of the Trust.

Changes in non-cash operating items are excluded from the calculation of distributable income as non-cash operating items are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Reconciliation Between Distributable Income and Cash From Operating Activities

	Year Ended December 31	
	2010	2009
Net cash from operating activities, per Statement of Cash Flow	$ 5,473,970	$ 11,539,313
Add/Deduct:		
Changes in non-cash operating items	954,144	(1,759,824)
FF&E Reserve	(2,236,570)	(2,303,406)
Distributable income	$ 4,191,544	$ 7,476,083
Distributable income - Per unit - basic and diluted	$0.33	$0.58

During 2010, the distributable income of Temple REIT was $4,191,544 or $0.33 per unit, compared to $7,476,083 or $0.58 per unit during 2009. During 2010 and 2009, the distributions of Temple REIT were equal to 122% and 86% of distributable income, respectively.

Distributions

The distributions of Temple REIT are established at the discretion of the Trustees.

In March 2009, Temple REIT announced a reduction in the total distribution for 2009 and a change from a monthly distribution policy to a quarterly distribution policy, commencing in the second quarter of 2009. In total, Temple REIT declared a distribution of $0.50 per unit in 2009, comprised of three distributions which were paid in the second, third and fourth quarter of 2009, in the combined amount of $0.30 per unit, plus distributions of $0.10 per unit which were paid for both January 2009 and February 2009. The reduction in the total distribution was necessitated as a result of the decrease in operating cash flow.

In total, Temple REIT declared a distribution of $0.40 per unit in 2010, comprised of a declared distribution of $0.10 per unit for the first, second, third and fourth quarters of 2010. The distributions were paid on April 15, 2010, July 15, 2010, October 15, 2010 and December 31, 2010, respectively.

Cash outflows for distributions amounted to $5,132,561 during the 2010, compared to $6,410,009 in 2009.

In February 2011, Temple REIT announced a change in its distribution policy from quarterly cash distributions to monthly cash distributions, effective April 1, 2011. The final quarterly cash distribution in the amount of $0.10 per unit was paid on April 15, 2011 to the Unitholders of record on March 31, 2011. The first monthly cash distribution in the amount of $0.033 per unit ($0.40 on an annual basis) is expected to occur on May 15, 2011 to Unitholders of record as of April 30, 2011.

Comparison of Distributions to Cash Flow Measurements

The following chart compares total distributions to the cash flow measurements which were previously discussed.

	Year Ended December 31	
	2010	2009
Total distributions	$ 5,132,561	$ 6,410,009
Cash flow from operations	$ 5,473,970	$11,539,313
Excess (shortfall) compared to distributions	$ 341,409	$ 5,129,304
Cash from operations after scheduled principal repayments of long-term debt	$ 642,178	$ 4,371,466
Excess (shortfall) compared to distributions	$ (4,490,383)	$ (2,038,543)
Cash from operations after scheduled principal repayments of long-term debt and capital expenditures	$ (233,379)	$ 2,049,955
Excess (shortfall) compared to distributions	$ (5,365,940)	$ (4,360,054)
Distributable income	$ 4,191,544	$ 7,476,083
Excess (shortfall) compared to distributions	$ (941,017)	$ 1,066,074
Funds from operations	$ 4,312,549	$ 8,187,133
Excess (shortfall) compared to distributions	$ (820,012)	$ 1,777,124

As noted in the chart, cash flow from operations exceeded distributions by $341,409. After including scheduled principal repayments of long-term debt, distributions exceeded cash flow by $4,490,383. After including principal repayments and capital expenditures, distributions exceeded cash flow by $5,365,940.

During 2010, Temple REIT required sources of funding in addition to cash flow from operations in order to fund principal repayments, capital capital expenditures and distributions. The other sources of funding were proceeds from financing activities.

Financing Activities

As disclosed in the Consolidated Statements of Cash Flows in the audited financial statements, the financing activities of Temple REIT resulted in a net cash outflow of $10,011,844 during 2010. Financing activities consist primarily of distributions, long-term debt transactions, and the retirement of the defeased liability.

Details regarding the long-term debt transactions, defeased loan and distributions of Temple REIT are provided in other sections of this report.

Investing Activities

As disclosed in the Consolidated Statements of Cash Flows in the audited financial statements, the investing activities of Temple REIT resulted in a net cash inflow of $1,233,390 during 2010. Investing activities include a cash inflow of $2,941,723 in regard to the realization of the defeasance assets, a cash inflow of $125,365 in regard to net lease payments received from the investment in the Moose Jaw Casino, a cash outflow of $875,557 in regard to additions to property and equipment and a cash outflow of $958,141 in regard to an increase in cash in escrow.

Additions to Property and Equipment

During 2010, the cash outflow in regard to additions to property and equipment amounted to $875,557 of which $483,733 or 55% pertained to the upgrade/improvement program at the Capri Centre.

The total expenditures in regard to the upgrade/improvement program at the Capri Centre amounted to $1,258,893 during 2010. During the fourth quarter of 2010, $775,160 of these expenditures related to the Capri Centre were reclassified as "prepaid expenses" as the expenditures relate to deposits on capital items.

Cash in Escrow

The increase in cash in escrow of $958,141 is mainly attributable to an increase in the Furniture, Fixtures and Equipment Replacement Reserve Fund for the Clearwater Hotel.

Cash Flow Summary

The net cash outflow from operating, financing and operating activities during 2010 was $3,304,484. After providing for the opening cash balance of $7,401,442, Temple REIT completed 2010 with a cash balance of $4,096,958.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

Capital Structure

	December 31 2010	December 31 2009
Long-term debt - principal amount	$ 168,195,108	$ 170,051,865
Convertible debentures - face value	37,082,600	37,330,600
Equity raised - trust units (net of issue costs)	62,777,965	62,491,116
Total capitalization	$ 268,055,673	$ 269,873,581

Trust units:
Authorized - unlimited
Issued
December 31, 2010 - 12,903,795
April 25, 2011 - 18,176,278

Long-Term Debt

December 31, 2010 - $168,195,108
December 31, 2009 - $170,051,865

The long-term debt of Temple REIT consists primarily of mortgage loans which are secured by specific hotel properties. In total, mortgage loans represent 98% of the total long-term debt as of December 31, 2010. The remaining portion of the long-term debt consists of a loan which was obtained in 2002 in order to fund the development of the casino complex at the Temple Gardens hotel.

Long-term Debt Transactions

The balance of long-term debt, as of December 31, 2010, excluding transaction costs, decreased by $1,856,757, compared to the balance as of December 31, 2009. The decrease consists of $5 Million of additional mortgage loan financing for the Temple Gardens hotel and accretion on the convertible mortgage of $84,177, less $5,785,936 of regular monthly mortgage loan principal payments during 2010, as well as lump sum paydowns of $655,000 in regard to the Chateau Nova mortgage loan and a lump sum paydown of $500,000 in regard to the loan for the Merit hotel expansion.

Debt Covenants

As a condition of long-term debt, the Trust is required to maintain certain debt service coverage ratios and certain debt to equity ratios. In addition, capital expenditures must not exceed certain maximums with the exception of one mortgage loan, the Trust was in compliance of all covenants as of December 31, 2010. The Trust was not in compliance on one first mortgage loan in the amount of $32,424,610, as of December 31, 2010 as a result of a breach of the debt service coverage requirement in respect of that mortgage loan.

The Trust notified the lender on August 17, 2010 of the breach of the debt service coverage requirement and on September 2, 2010, the lender issued a formal notice of default. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. On March 30, 2011, the loan matured and was renewed.

Debt Maturities

Three mortgage loans with a combined principal balance of approximately $46 Million matured during 2010. The loans were renewed under the following terms:

- On March 30, 2010 the 6.83% first mortgage loan of the Clearwater Hotel in the amount of $23,058,327 was renewed for a one year term at the same interest rate.

- On October 31, 2010 the 12% mortgage loan on the Merit Hotel expansion, was paid down by $500,000 to a balance of $6,540,000 and renewed until June 30, 2011 at an interest rate of 12%. On February 11, 2011 the loan was repaid in full from the proceeds of the unit offering.

- On November 30, 2010, the 6.5% first mortgage loan of Chateau Nova, was reduced by $455,000 to a balance of $5,295,000 and renewed for a one year term at the same interest rate.

To April 25, 2011, the following mortgage refinancing was completed:

- The second mortgage loan for the Merit Hotel expansion was repaid in full.
- A lump sum payment of $9,000,000 was applied to the $23,058,327 first mortgage loan for Clearwater Suites Hotel; and
- The reduced first mortgage loan for the Clearwater Suites Hotel was renewed at the March 30, 2011 maturity until December 31, 2011.
- The first mortgage loan for Temple Gardens Mineral Spa was renewed for a one year term expiring May 1, 2012.

In summary all mortgages which matured prior to May 1, 2011 have been retired, renewed or refinanced.

Debt Summary

A summary of interest rates and debt ratios for the mortgage loan portfolio is provided in the following chart.

Long-term Debt Summary

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Weighted average interest rate of long-term debt	6.55%	6.46%	6.45%	6.52%	6.51%	6.96%	6.34%	6.34%
Ratio of mortgage loans payable, compared to:								
Acquisition cost of property portfolio	62%	63%	63%	62%	63%	66%	67%	68%
Appraised value of property portfolio	55%	55%	54%	53%	54%	57%	57%	57%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to:								
Acquisition cost of property portfolio	76%	77%	78%	77%	78%	76%	76%	77%
Appraised value of property portfolio	68%	67%	66%	65%	66%	64%	61%	65%

Debt Service Coverage Covenants

The status of the mortgage loans which are in breach of the debt service coverage requirements is provided below.

Property	Debt Service Coverage Requirement	Type of Mortgage	Mortgage Balance at December 31, 2010	Status
Fort McMurray				
Clearwater Hotel	2.00	First	$ 32,424,610	(1)
Vantage Inn and Suites	1.40	First	10,199,566	(2)
Yellowknife				
Chateau Nova	1.50	First	5,468,348	(3)
			$ 48,092,524	

(1) Subsequent to December 31, 2010, the mortgage loan matured and was renewed.
(2) Temple REIT is continuing to communicate with the lenders and management believes that all covenant breaches will be resolved. Income levels in 2011 may not satisfy the existing debt service coverage requirements.
(3) The loan was renewed in November 2010 for a one year term expiring November 30, 2011.

Convertible Debentures

The following chart summarizes the convertible debenture offerings of Temple REIT.

Analysis of Debenture Conversions

				Repayments/Unit Conversions		
Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Year Ended December 31, 2009	Year Ended December 31, 2010	Net amount Outstanding December 31, 2010
Feb. 15/07/Mar. 31/12 (1)	A	7.50 %	$ 15,680,000	$ (13,215,500)	$ -	$ 2,464,500
Apr. 8/08/Apr. 30/13 (2)	B	8.50 %	30,000,000	(10,133,900)	-	19,866,100
Nov. 27/09/Nov. 30/14 (3)	S*	8.75 %	15,000,000	-	(248,000)	14,752,000
Face value			$ 60,680,000	$ (23,349,400)	$ -	37,082,600
Net accumulated accretion						2,046,899
Unamortized transaction costs						(1,533,093)
Book value, December 31, 2010						$ 37,596,406

* Referenced in the Financial Statements as Senior Secured Convertible Debentures.

(1) The Series A Debentures are convertible into Units at the option of the holder at anytime until the March 31, 2012 maturity at a price of $5.75 per Unit.
(2) The Series B Debentures are convertible into Units at the option of the holder at anytime until the April 30, 2013 maturity at a price of $7.50 per Unit.
(3) The Senior Secured Debentures are convertible into Units at the option of the holder at anytime until the November 30, 2014 maturity at a price of $3.65 per Unit.

The Senior Secured debentures provide that for the outstanding amount of the debentures may become payable on demand, upon default and acceleration, under certain terms and conditions, of a mortgage loan. The Senior Secured debentures may become payable on demand in the event that the lender demands repayment of two mortgage loans which are in breach of the debt service coverage covenant for 2010. See "Debt Service Coverage Covenants".

In accordance with the terms of the trust indenture for the Series A and Series B debentures, the Trust has option at the maturity of the Series A and Series B to retire the principal amount of the debentures, in whole or in part, by issuing units. If Temple REIT exercises its option, the number of units issued at maturity is determined by dividing the principal amount at the maturity date by 95% of the current market price of the units.

Debt and Equity Components

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of the debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating operating cash flows and distributable income.

The allocation of the debt and equity component of the convertible debentures is provided in note 10 of the audited financial statements of Temple REIT for 2010.

Trust Units

The following is a summary of the units which have been issued by Temple REIT as of December 31, 2010.

Description	Units Issued	Equity Raised
Balance, January 1, 2010	12,825,352	$ 62,491,116
Exercise of options	10,500	31,605
Value associated with options exercised		15,274
Exercise of convertible debentures	67,943	214,390
Equity component of convertible debentures converted		40,334
Issue costs		(14,754)
Balance, December 31, 2010	12,903,795	$ 62,777,965

Deferred Unit Plan

Temple REIT adopted a Deferred Unit Plan in 2009, under which Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. As previously disclosed, 21,538 deferred units were issued to Trustees under the Deferred Unit Plan during 2010, with a deemed market value of $61,332.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, directors and senior officers of Temple REIT and to other individuals who are employed or retained by the Trust to perform specific duties, provided that the number of units reserved for issuance will not exceed 10% of the issued and outstanding units. The unit options are exercisable for a maximum period of five years from the date on which the unit options are granted.

During 2009, Temple REIT did not issue any options under the Unit Option Plan.

On January 12, 2010, Temple REIT issued a total of 80,000 incentive options to purchase units at a price of $3.01 per unit. As the options were exercisable immediately, the estimated fair value of the options, in the amount of $116,370, was expensed in the first quarter of 2010 as "unit-based compensation" expense.

On December 15, 2010, Temple REIT issued a total of 25,000 options to purchase units at a price of $3.93 per unit. As the options were exercisable immediately, the estimated fair value of the options, in the amount of $22,817, was expensed in the fourth quarter of 2010 as "unit-based compensation" expense.

Additional details of the Deferred Unit Plan and Unit Options Plan are disclosed in note 16 and note 17 of the financial statements of Temple REIT.

Public Offering of Trust Units - February 2011

On February 11, 2010, Temple REIT completed a public offering of 5,000,000 trust units at a price of $4.00 per unit for gross proceeds of $20,000,000 and net proceeds of $18,643,000 after deducting agents fees and other costs.

The net proceeds from the offering were used to repay $6,540,000 of second mortgage debt, as well as a $9,000,000 principal paydown on the first mortgage at the Clearwater Hotel. The remaining proceeds are intended to be used to for general purposes and to fund a portion of the renovation and expansion costs at the Capri Hotel.

The prospectus for the public offering of trust units proposed that $6 million of the net proceeds from the offering would be used to fund renovation and expansion costs at the Capri Centre. For sound business reasons, a portion of the net proceeds from the offering were used to pay down debt for the Clearwater Suites hotel. As a result, the amount of proceeds from the unit offering which are available for the funding of the renovation and expansion costs at the Capri Centre is effectively reduced to approximately $3 million. It is anticipated that the remaining proceeds from the public offering in the amount of $3 million, the $3 million of additional funding which is pre-arranged for the Capri Centre renovations and the proceeds of the upward refinancing of other mortgage loan debt will be sufficient to fund the Capri Centre renovation..

Other Assets and Liabilities

Accounts Receivable

As of December 31, 2010, "Accounts receivable", as disclosed on the balance sheet of Temple REIT, amount to $3,038,065, compared to a balance of $2,150,209 as of December 31, 2009. The accounts receivable consist primarily of contractual commercial accounts.

Accounts Payable and Accrued Liabilities

As of December 31, 2010, "Accounts payable and accrued" liabilities on the balance sheet of Temple REIT, amount to $5,801,986, compared to a balance of $4,570,013 as of December 31, 2009. The accounts payable and accrued liabilities consist primarily of normal trade payables and accrued mortgage and convertible debenture interest payable.

The accounts payable and accrued liabilities have fixed payment dates in 2011 and are not overdue.

Defeasance Assets and Defeased Liability

The purchase of the Nomad Inn encompassed the acquisition of the bare trustee company which held title to the properties. The debt of the bare trustee company included a loan with Computershare Trust Company of Canada of $3,690,806 with a maturity date of April 1, 2010. As the loan could not be discharged on closing due to the nature of the loan security, the loan was defeased. In this regard, the bare trustee company effectively nullified the loan by placing sufficient Government of Canada bonds in escrow to offset the debt obligations. The fair value of the bonds was $4,151,677.

The debt of the bare trustee company is disclosed on the balance sheet of Temple REIT as a "defeased liability". The Government of Canada bonds in escrow are disclosed as "defeasance assets".

On April 1, 2010, the defeasance assets were realized and the defeased liability was paid in full, resulting in a nil balance for the assets and liability as of December 31, 2010.

Prepaid Expenses

As of December 31, 2010, prepaid expenses, as disclosed on the balance sheet of Temple REIT, amount to $1,324,817, compared to a balance of $226,402 as of December 31, 2009. The increase mainly reflects prepaid deposits of $775,160 relating to the purchase of furnishings and fixtures for the Capri Centre upgrade/expansion program.

Capital Requirements

General

Temple REIT requires an ongoing source of cash to fund regular principal payments on long-term debt, capital expenditures and distributions. Cash from operating activities effectively represents the initial source of funding for these expenditures. New mortgage loan financing may also be obtained whereby the release of loan proceeds is conditional upon the completion of property-specific capital expenditures.

Temple REIT also requires capital for other investing and financing activities, including the funding of the equity component of new property acquisitions and lump-sum repayments of mortgage loan debt. The repayment of convertible debenture debt is also a funding consideration from a longer term perspective.

To the extent that cash from operating activities is not sufficient to fund regular repayments of long-term debt, "non-financed" capital expenditures and distributions, Temple REIT requires an additional source of cash. As previously disclosed, the shortfall between the cash inflow from operating activities and the total cash outflow for regularly scheduled principal payments, distributions and capital expenditures was $6,320,084 during 2010.

Long-term Debt and Lease Payments

A summary of the long-term debt maturities and operating lease obligations of Temple REIT, is provided in the following chart.

Summary of Contractual Obligations

Payments Due By Period	Total	1 year	2 - 3 years	4 - 5 years	> 5 years
Long-term debt	$168,546,616	$ 69,484,470	$ 84,855,524	$ 11,240,269	$ 2,966,353
Operating leases	765,992	511,453	208,675	45,864	-
Total	$169,312,608	$ 69,995,923	$ 85,064,199	$ 11,286,133	$ 2,966,353

The total amount of long-term debt due in 2011 of $69,484,476 is comprised of the following:

- regular repayments of principal in the estimated amount of $5,198,005; and

- the principal balance of a mortgage loan which matures in 2013 that is in breach of debt service covenant requirements.

- principal due of $54,662,675 at the maturity dates on the following maturing loans:

(i) principal of $6,540,000 in regard to the 12% interest-only mortgage loan on the Merit Hotel expansion. The loan was retired on February 11, 2011.

(ii) principal in the amount $23,120,165 at the March 30, 2011 maturity date in regard to the 6.83% first mortgage loan of the Clearwater hotel. On February 11, 2011, the Trust paid down the loan by $9,000,000. On March 30, 2011, the Trust has renewed the mortgage until December 31, 2011 under similar terms and conditions.

(iii) principal of $5,193,348 on November 30, 2011 in regard to the 6.5% first mortgage loan of Chateau Nova. Management believes the debt will be renewed with similar terms and conditions.

(iv) principal of $4,838,393 in regard to the 4.3207% mortgage loan of the Temple Gardens hotel, due on May 1, 2011. The loan was renewed for a one year term expiring May 1, 2012.

(v) principal of $5,970,188 in regard to the 5.51% mortgage loan of the Temple Gardens hotel, due on October 1, 2011. Management believes the debt will be upward financed.

Capital Expenditures

Temple REIT is undertaking extensive guest room improvements and building upgrades to the Capri Centre in Red Deer, Alberta, at a budgeted cost of $9.8 million. The upgrade/improvement program is being undertaken as part of the process to re-brand the Capri Centre under the "Sheraton" hotel banner. The improvements involve new guest room designs which were created by the in-house design team for Sheraton and are based on extensive in-room behaviour research. The new rooms at the Capri Centre will serve as the prototype for the new room design in the Canadian market. The upgrade/improvement program is expected to be completed by September 2011 at which time the Capri Centre will be renamed the "Sheraton Red Deer".

After accounting for cumulative expenditures to December 31, 2010 in regard to the upgrade/improvement program of $1,25 million, the remaining budgeted cost is $8.55 million.

The upward refinancing of the first mortgage loan of the Capri Centre has also been arranged and will provide $5.5 million of funding for the remaining costs of the upgrade/improvement program. Approximately $3 million portion of the proceeds which were raised from the public offering of trust units in February 2011 are also intended to be used to fund the upgrade/improvement program.

Sources of Capital

Existing Cash

As of December 31, 2010, the cash balance of Temple REIT was approximately $4.1 Million, while the working capital balance was $1.88 Million, excluding the current portion of long-term debt.

Working capital consists of unrestricted cash, marketable securities, accounts receivable, inventories, prepaid expenses, income taxes receivable and the current portion of net investment in lease, less accounts payable and accrued liabilities and gift certificate liability.

Mortgage principal payments and convertible debenture payments due within the twelve month period ending December 31, 2011 are not included in the calculation of the working capital deficit.

Working capital is a commonly used financial measurement of an entity's liquidity and is generally derived by deducting current assets from current liabilities, excluding short-term debt. Working capital is a non-GAAP measurement and the method which is used by Temple REIT for calculating the working capital may differ from the method which is used by other issuers. Accordingly, the working capital as calculated by Temple REIT may not be comparable to the working capital measurements which are provided by the other issuers.

Cash from Operating Activities

Cash flow from operating activities decreased during 2010, compared to 2009, largely due to a decrease in hotel revenues and a corresponding decrease in operating income. Cash flow from operating activities is expected to improve in 2011. The extent of the improvement is largely dependent on the rate of recovery of economic conditions in Fort McMurray in particular and Alberta in general. The anticipated improvement is expected to mainly occur during the second and third quarters of 2011 when demand for rooms at the Temple REIT hotels is typically at its highest level.

Additional Mortgage Loan Financing

The upward refinancing of the mortgage loan debt of the hotel portfolio represents a key source of supplemental financing for overall Trust operations.

During 2011, the proceeds from the upward refinancing of mortgage loan debt are expected to provide a sufficient level of supplemental capital to fund "regular" mortgage loan principal payments and renovation/expansion costs at the Capri Centre, to the extent necessary, after accounting for cash from operations, net of distributions, and the residual proceeds from the unit offering February 2011.

Marketable Securities

As of December 31, 2010, Temple REIT owns marketable equity securities with a fair value of $250,500. The marketable equity securities represent a potential source of capital.

As of December 31, 2010, Temple REIT also has $325,015 invested in guaranteed investment securities, with various maturity dates in 2011.

Debt and/or Equity Offerings

Public offerings or private placements of debt and/or equity represent an ongoing potential source of capital for Temple REIT.

As previously noted, Temple REIT raised gross proceeds of $20 million from a public offering of trust units in February 2011.

HOTEL MANAGEMENT

Temple REIT has retained Atlific to manage all of the hotels in its existing property portfolio. The terms of the five year management contracts for each of the hotels are provided below.

		Base Management Fee		
	Expiry Date	Year 1	Year 2	Year 3 to Year 5
				% of Gross Revenues
Temple Gardens	Sept. 30, 2011	$175,000	$200,000	2.5%
Chateau Nova	Mar. 22, 2012	$45,000	$65,000	2.5%
Clearwater Suites	Mar. 31, 2012	$135,000	$200,000	2.0%
Merit Hotel & Franklin Suites	Apr. 30, 2012	$125,000	$150,000	2.0%
Nomad Hotel and Suites	Apr. 30, 2012	$125,000	$150,000	2.0%
Vantage Inn & Suites	Jan. 31, 2013	$125,000	$150,000	2.0%
Best Western Wayside Inn	May 31, 2013	$175,000	$187,750	2.5%
Capri Centre	Dec. 31, 2013	$305,000	$406,000	Fixed

In addition to the base management fee, the management agreement for each hotel also provides for an incentive management fee. The incentive management fee is equal to 10% of the amount by which the net operating income of the hotel exceeds the budgeted net operating income commencing in the second year after acquisition of the hotels.

Atlific received $1,444,321 in base and incentive management fees during 2010.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter")

Asset management services are provided to Temple REIT by Shelter, pursuant to the terms of an Asset Management Agreement. The Asset Management Agreement also requires Shelter to act as administrator of the Trust by providing accounting and human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Temple REIT.

The Asset Management Agreement provides for Shelter to receive an asset management fee equal to 1.5% of the gross revenues of the hotel properties and assets of the Trust and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During 2010, Shelter earned asset management fees of $963,666.

Mr. Arni Thorsteinson, the President and Chief Executive Office of Temple REIT and a Trustee, is the sole director and President of Shelter and the sole director and President of the parent corporation of Shelter, 2668921 Manitoba Ltd.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of Temple REIT encompasses the risks which are inherent in the ownership and operation of a portfolio of hotel properties, as well as the normal risks which are associated with an investment in a real estate investment trust which invests in hotel properties.

An investment in Temple REIT encompasses a number of risks including liquidity, financing, environmental and diversification risks; the risks associated with real property ownership, the hotel industry, franchised hotels, potential labour disruptions, competition, land leases, interest rate fluctuations, current economic conditions, availability of cash flow, seasonality, lack of available growth opportunities, the risk of general uninsured losses and the failure to maintain mutual fund trust status, the failure to obtain additional financing, as well as restrictions on redemptions, investment concentration, acquisition risk, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, income tax related risk factors, the potential dilution arising from the issue of additional Units, securities investment risks and risk associated with the relationship with Shelter and Atlific. The Annual Information Form of Temple REIT which is available at www.sedar.com sets out the key risk factors applicable to Temple REIT.

The key risks include the following:

Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- availability of financing for operating or capital requirements;
- seasonal fluctuations in hotel operating income produced throughout the year;
- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Current Economic Conditions

Canadian real estate investment trusts are subject to risks generally incidental to the Canadian real estate, credit, capital and financial markets. The global recessionary economic conditions and the global financial liquidity crisis that existed in 2008 and 2009, resulted in persistent interruptions in the credit and capital markets, devaluations of assets directly or indirectly linked to the Canadian real estate finance markets and the concurrent elimination of long and short-term liquidity from the capital markets. These conditions have had, and are expected to continue to have, an adverse effect on Temple REIT as well as the assets Temple REIT has invested in.

Sensitivity to the global economic conditions, and their impact in Canada, may negatively affect the income received from Temple REIT's properties. Inherent illiquidity may limit Temple REIT's ability to vary its portfolio in response to changes in the global, national and/or local economic conditions and may ultimately prevent Temple REIT from implementing its acquisition and investment strategies. Increased vacancy rates and other difficulties commonly associated with recessionary economic conditions, may occur and may adversely affect the income received from Temple REIT's properties. Finally, the extent to which Temple REIT relies on debt financing for properties located in secondary geographic markets increases the risk that Temple REIT will either be unable to refinance existing indebtedness or result in Temple REIT receiving less favourable terms than that of existing financing arrangements.

Certain of Temple REIT's hotel properties, particularly in Fort McMurray, Alberta, experienced declines in revenue during the recession. While management of Temple REIT believes that the hotel market in Fort McMurray will continue to improve, there can be no assurance it will improve and there is the possibility that it may decline. Temple REIT's financial results for 2011 and future periods are subject to uncertainties.

Debt Financing Risk

Temple REIT and its subsidiaries have incurred, and will continue to incur, indebtedness in connection with acquisitions, including by way of additional mortgage loans, vendor take-back financing and the issuance of debentures. A portion of the cash flow generated by hotel properties owned by Temple REIT and its subsidiaries will be devoted to servicing such debt and there can be no assurance that Temple REIT's hotel properties will generate sufficient cash flow from operations to meet the required interest and principal payments on such debt. During fiscal 2010, cash flow from operating activities, which includes interest expense on mortgage loan and convertible debenture debt, amounted to $5,473,970, while principal payments on mortgage loan debt amounted to $5,785,936, excluding lump-sum principal payments of $1,155,000.

Temple REIT is subject to the risks associated with debt financing including the risk that cash flow from operations may be insufficient to fully meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancings will not be as favourable to Temple REIT as existing debt and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all. In such circumstances, if Temple REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing(s) on unfavourable terms. In addition, Temple REIT will be subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of Temple REIT and its ability to make distributions. In order to minimize this risk, Temple REIT will attempt to appropriately structure the timing of the renewal of significant indebtedness on each respective hotel property in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Temple REIT expects that its financing arrangements will contain covenants that will restrict its ability to operate its business in certain ways.

If Temple REIT fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against Temple REIT. Credit facilities also typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met. In connection with its financing arrangements, Temple REIT expects that it will grant security interests over substantially all of its assets. If Temple REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

Also as previously disclosed in this report, Temple REIT is in breach of a debt service coverage covenant for 2010 in regard to two first mortgage loans totaling $15,667,914. There is a risk that the mortgage loans will become payable on demand and, as a result of cross default clauses, a risk that the Senior Secured convertible debentures, with a face value of $14,752,000 may become payable on demand. Management is requesting two waivers in the debt service coverage covenant for 2010.

Interest Rate Fluctuations and Financing Risk

Financing by Temple REIT and its subsidiaries may include indebtedness with interest rates based on variable interest rates that result in fluctuations in the cost of borrowing. Temple REIT and/or its subsidiaries will be required to refinance its debt from time to time and, if new debt has less favourable terms than existing indebtedness, or if such refinancing cannot be obtained, there is a potential negative impact on cash available for distributions.

Following the recession in 2008, the Canadian economy has experienced historically low interest rates, which has had a positive impact on Temple REIT's overall debt costs. An increase in interest rates could significantly affect Temple REIT's ability to meet its financial obligations. In order to minimize this risk, Temple REIT negotiates fixed-rate term debt with staggered maturities for the majority of debt on its property portfolio. As of December 31, 2010 approximately 97% of the long-term debt of Temple REIT is fixed rate debt. Derivative financial instruments may be utilized by Temple REIT in the management of its interest rate exposure. Temple REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on its portfolio.

Fluctuations in Cash Distributions

A return on an investment in Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Units is at risk, and the return on an investment in Units is based on many performance assumptions. The distributions of Temple REIT are established at the discretion of the Trustees. The actual amount of distributions depends on numerous factors, including the actual and projected financial performance of the hotels in Temple REIT's portfolio, its cash reserves, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtness, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Distributions may be reduced or suspended at any time. In addition, the market value of the units may decline if Temple REIT is unable to provide a satisfactory return to Unitholders and that decline may be significant.

Public Market Risk

It is not possible to predict the price at which units will trade in the future and there can be no assurance that an active trading market for the units will be sustained. The Units will not necessarily trade at values determined solely by reference to the value of the properties of Temple REIT. Accordingly, the Units may trade at a premium or a discount to the value implied by the value of the properties of Temple REIT. In addition, the market price for units may be affected by changes in general market conditions, fluctuations in the market for equity securities and numerous other factors which are beyond the control of Temple REIT, may affect the market price for the Units.

Investment in Marketable Equity Securities

Temple REIT may invest in publicly-traded securities, which are subject to all of the risks associated with such investments, including general market risks, including the potential decrease in value and volatility of financial results and dividends and/or distributions, if applicable.

As previously disclosed in this report, Temple REIT purchased equitable marketable securities in 2008 as a short-term investment of excess cash. As of December 31, 2010, the market value of the securities, net of distributions received, has decreased by $1,223,122, compared to the purchase price of the securities.

There is a risk that the marketable equity securities will experience a further decline in value.

Concentration of Temple REIT's Portfolio in One Market

The property portfolio of Temple REIT has significant exposure to the Fort McMurray, Alberta market. Temple REIT has ten hotel properties in its real estate portfolio, six of which are located in Fort McMurray, Alberta. Based on the cost of $265,042,670 for the ten hotels, the six properties represent approximately 62% of the total acquisition cost of the portfolio.

During 2010, the six hotel properties in Fort McMurray accounted for 35% of the total revenue of the Trust and 49% of the total operating income, while achieving an average occupancy of 53%.

During 2010, the Capri Centre in Red Deer, Alberta accounted for 30% of revenue and 23% of total operating income, while achieving an average occupancy level of 47%.

Payment of Cash Distributions

In accordance with the terms of the Declaration of Trust, as amended, the distributions of Temple REIT are determined at the discretion of the Trustees.

Changes to Tax Treatment of Trusts

Effective for the 2011 taxation year, the SIFT Rules (as herein defined - See "Taxation") will apply to Temple REIT and its Unitholders, and significantly change the way in which Temple REIT and distributions from Temple REIT are taxed.

Pursuant to the SIFT Rules, Temple REIT will no longer be able to deduct any part of certain amounts payable to Unitholders. Distributions which Temple REIT is unable to deduct will be taxed in Temple REIT at rates of tax designed to emulate the combined federal and provincial corporate tax rates, and such distributions received by Unitholders will be recharacterized by the SIFT Rules as dividends payable to Unitholders. Distributions paid as returns of capital will not be subject to this tax.

The SIFT Rules do not apply to a Qualifying REIT (as herein defined - See "Taxation"). Temple REIT is not, nor is it expected to be in the future, a Qualifying REIT.

Management of the Trust anticipates that over the next few years, a large portion of distributions are to be returns of capital, which would significantly mitigate the impact of the SIFT Rules on Unitholders.

Relationship with Shelter and Atlific

The financial performance of Temple REIT will depend in part on the performance of Shelter in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

The financial performance of Temple REIT will also depend in part on the performance of hotel management, currently being Atlific. Temple REIT depends on Atlific for all aspects of the day-to-day management of all of its hotel properties owned at the date hereof. There can be no assurance that a suitable replacement would be found in a timely manner or at all if Atlific ceased providing services to Temple REIT.

Reliance on Key Personnel

The success of Temple REIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on Temple REIT.

Other Risks

Other risks are more fully discussed in the other regulatory filings of Temple REIT, including the 2010 Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;
- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and
- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.
- The expected tax rates applicable to SIFT's of 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that temporary tax differences of the Trust are expected to reverse.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

CHANGES IN ACCOUNTING POLICIES

Future Changes to Accounting Standards

International Financial Reporting Standards (IFRS)

Reason for Change to IFRS

Effective January 1, 2011, the accounting framework under which all publicly accountable enterprises in Canada are required to prepare financial statements, as established by the Canadian Accounting Standards board, officially changed from "Generally accepted accounting principles" ("GAAP") to "International Financial Reporting Standards" ("IFRS").

Accordingly, Temple REIT adopted International Financial Reporting Standards effective January 1, 2011.

IFRS Changeover Activities

The Trust has undertaken a number of activities in regard to identifying differences between Canadian GAAP and IFRS, evaluating alternative methods of adoption of specific IFRS accounting policies, assessing the expected effects of IFRS on the financial statements of the Trust and identifying the impact of the changeover to IFRS on the business activities of Trust, including the impact on the control system, IT systems and training requirements of the Trust.

A summary of the key activities related to the IFRS changeover, including the timing and status of each key activity, is provided in the following chart. More detailed information in regard to the main differences between Canadian GAAP and IFRS are provided in the section of the MD&A which follows the chart.

Key Activity	Timing	Status
Financial Statement Preparation • Identify changes in accounting policy between Canadian GAAP and IFRS • Evaluate and select accounting method for accounting policies that encompass options • Identify differences in recognition, measurement and financial statement disclosure under IFRS • Prepare financial statements for 2010IFRS comparatives	• Confirmation and approval of accounting policies by November 30, 2010 • Completion of IFRS financial statement template and Q1 2010 comparatives by November 30, 2010 • Completion of impairment test model by November 30, 2010 • Completion of IFRS Q2 2010 comparatives by December 15, 2010 • Completion of IFRS Q3 2010 comparatives by December 15, 2010 • Completion of IFRS 2010 year end comparatives by March 31, 2011	• Completed • Completed • Completed • Completed • Completed • Completed
Training • Provide comprehensive technical training to senior staff members in the accounting and investor reporting departments • Provide specific job-related training to other accounting staff members following the identification of new accounting policies and methods • Communicate impact of IFRS to trustees	• In-house seminars conducted in December 2008 and December 2009 • On-going, as needed • On-going, with more specific information provided over time. Focus to be on updates to Audit Committee at quarterly meetings	• Completed • Proceeding, as planned • Proceeding, as planned
Business Impacts • Determine impact of IFRS financial statement presentation and disclosure on MD&A • Identify impact of IFRS on business activities, including asset and property management fee structures and debt covenants	• Completion of IFRS template for MD&A by April 30, 2011 • Assessment and recommendations in respect of major issues to be completed by December 31, 2010	• Substantially completed • Completed
IT Systems • Implement changes to general ledger and financial statement accounting systems • Identify and implement any other changes required to the IT system	• No changes to general ledger and financial statement accounting systems • None	• Completed • Completed
Control Environment • Identify impact of IFRS on internal controls and disclosure controls and procedures • Implement changes to control systems, as required	• On-going • All incremental controls to be implemented by January 1, 2011	• Proceeding as planned • Completed
Other • Classification of trust units: During the initial review of accounting policies under IFRS, it was determined that the Trust units of TREIT could potentially be regarded as a liability rather than equity, with the associated distributions classified as interest expense, as a result of the mandatory distribution requirements which were established in the Declaration of Trust. In order to continue to present units as equity, the Unitholders approved an amendment to the Declaration of Trust in December 2009 to provide for distributions to be established at the discretion of the Trustees.		

Description of New Accounting Standards

The main differences between Canadian GAAP and IFRS which have been identified to date are summarized below.

Asset Impairment

Under Canadian GAAP, assets are first tested for impairment by taking undiscounted cash flows and comparing to carrying value. If the carrying value is higher, the asset is revalued using discounted future cash flows. Under IFRS, an asset is compared to its recoverable amount. The recoverable amount is the higher of discounted cash flows and the fair value less costs to sell the asset.

The Trust has completed impairment testing and has determined that adjustments to the carrying value of assets is not required as a result of implementing the IFRS impairment tests.

Convertible Debentures and Convertible Mortgages

TREIT is an open ended mutual fund trust. As a result, convertible debentures and convertible mortgages are linked to puttable trust units. The convertible debentures and convertible mortgages are therefore derivative financial instruments under IFRS instead of compound financial instruments as reflected in GAAP. Convertible debentures and convertible mortgages will, therefore, be recorded at fair value with changes in fair value recorded in the income statement.

Upon conversion, the equity component of convertible debentures and convertible mortgages in the amount of $6.5 million will be eliminated; the carrying value of the convertible debentures and convertible mortgages will be increased by $3.9 million in order to recognize the fair value of the financial instruments and a future income tax liability representing the difference between fair value and face value in the amount of $1.0 million will be recognized with the balance reflected in equity.

Unit-Based Compensation and Deferred Units

In accordance with GAAP, the REIT accounts for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. For deferred units, unit granted are charged to expense when granted. Given that Temple REIT is an open ended trust, unit options and deferred units are to be settled by redeemable units. As a result, the REIT's unit option plan and deferred unit plan are considered to be cash-settled and will be recorded as a liability at fair value in accordance with IFRS-2 - Shared-Based Payment.

Management has determined that the adjustments in this regard are not material.

First-time adoption of International Financial Standards

The Trust's adoption of IFRS will require the application of IFRS 1 - First-Time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 has certain exceptions and options in specified areas of certain standards. The most significant option available to the Trust is an option to value property and equipment at the current fair value as of the date of transition to IFRS (January 1, 2010). As reflected in the December 31, 2010 financial statements are measured at amortized cost, in accordance with Canadian GAAP and will continue to be measured as such under IFRS. The Trust does not expect to apply any exemptions in the transition to IFRS.

FINANCIAL INSTRUMENTS

The financial instruments of Temple REIT consist of basic financial instruments which are typically used in the operation and ownership of hotel properties and in the operation of a real estate investment trust, including cash, term deposits, marketable equity securities, accounts receivable, accounts payable and accrued liabilities, gift certificate liabilities, mortgage loans and other long-term debt secured by the revenues or assets of hotel properties.

The fair value of the mortgage loans and other long-term debt approximates the carrying value due to the nature of the debt and the relatively short terms to maturity. The fair value of the current assets and liabilities approximates the carrying value due to the immediate or short-term nature of the instruments.

For the current assets and liabilities, the main risk is the credit risk associated with accounts receivable. The credit risk is reduced due to a diversified customer base. The risks associated with mortgage loans and long-term debt include the risk of interest rate increases for maturing loans and the risk of potential defaults in debt payments due to insufficient cash flows. In order to minimize the risk associated with potential interest rate increases, Temple REIT will stagger debt maturity dates, to the extent possible. Temple REIT attempts to minimize the risk of any defaults in debt payments through its investment and operating policies which include focusing on hotel acquisitions with a history of stable cash flows and restricting the amount of mortgage loan financing to 75% of the appraised value of the hotel properties.

TAXATION

Taxation of Temple REIT

Temple REIT qualifies as a mutual fund trust for income tax purposes.

Temple REIT is generally subject to tax in Canada under the Income Tax Act (the "Tax Act") in respect of its taxable income each year. For taxation years prior to 2011, to the extent that taxable income was paid or deemed to be payable to Unitholders, it could be deducted by Temple REIT for tax purposes. The distributions of Temple REIT are established in the discretion of the Trustees.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. The SIFT Rules apply to "specified investment flow-through trusts" ("SIFTS") and their unitholders and, generally commencing in 2011, significantly change the way in which they are taxed. Temple REIT is a SIFT and, subject to becoming a "Qualifying REIT" (as herein defined), will be subject to the SIFT Rules commencing in the 2011 taxation year.

Pursuant to the SIFT Rules, Temple REIT will no longer be able to deduct any part of the amounts payable to unitholders in respect of (i) aggregate net income from businesses it carries on in Canada; (ii) aggregate net income (other than taxable dividends received by the trust) from its non-portfolio properties; and (iii) aggregate net taxable capital gains from its dispositions of non-portfolio properties. It is not expected that there will be material amounts which will be deductible to Temple REIT. Distributions which Temple REIT is unable to deduct will be taxed in Temple REIT at rates of tax designed to emulate the combined federal and provincial corporate tax rates. Distributions paid as returns of capital will not be subject to this tax.

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its revenues and investments (a "Qualifying REIT"). Temple REIT is not a Qualifying REIT due to its investment in subsidiaries which carry on hotel businesses. While the tests for being a Qualifying REIT are applied on an annual basis, significant restructuring, including the disposition of the business interests, would be required prior to Temple REIT being able to become a Qualifying REIT, and there is currently no intention to undertake such restructuring.

For a more complete discussion of the SIFT Rules, refer to the Tax-Related Risk Factors set out in Temple REIT's 2010 Annual Information Form.

Taxation of Unitholders

Subject to the SIFT Rules, a Unitholder is required to include, in computing income for tax purposes each year, the portion of the amount of net income and net taxable capital gains of Temple REIT paid or payable to the Unitholder in the year. Pursuant to the SIFT Rules which will become applicable to Temple REIT in the 2011 taxation year, distributions of income of the Trust received by Unitholders that are not deductible to Temple REIT (see above - Taxation of Temple REIT) will be recharacterized by the SIFT Rules as dividends payable to Unitholders, and will be taxed in the hands of Unitholders as eligible dividends from a taxable Canadian corporation, whether that amount is received in cash, additional units or otherwise. Distributions paid as returns of capital will not be subject to this tax.

The cash distributions which have been paid to the Unitholders since the inception of Temple REIT in 2006 have exceeded the taxable income of Temple REIT, as calculated for income tax purposes, and accordingly have been paid as returns of capital. Management of Temple REIT anticipates that over the next few years, a large portion of distributions will continue to be returns of capital, which would significantly mitigate the impact of the SIFT Rules on Unitholders. Generally, distributions that are characterized as returns of capital are not taxable to Unitholders but serve to reduce the adjusted cost base of a Unitholder's Units. Where reductions to a Unitholder's adjusted cost base of Units for the year will result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the Unitholder in the year and the Unitholder's adjusted cost base of the Units at the beginning of the next year will then be nil.

Upon the disposition or deemed disposition by a Unitholder of a Unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the Unit exceed (or are exceeded by) the adjusted cost base of the Unit. Currently, 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholder's income for tax purposes, and 50% of a capital loss may be deducted against taxable capital gains.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Temple REIT will be implementing additional controls, as necessary, to ensure the reliability of any financial information which is materially affected as a result of the adoption of International Financial Reporting Standards. In addition, IFRS record-keeping will be implemented within the financial information system of the Trust to enable the capturing of financial information under multiple sets of accounting principles and required changes to IT systems and data collection mechanisms are being identified as each work stream progresses.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances, or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to Temple REIT is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2010 Annual Report of Temple REIT, including Schedule I, and the delivery of the report to the Unitholders have been approved by the Trustees.

TEMPLE REAL ESTATE INVESTMENT TRUST
April 25, 2011

Temple Real Estate Investment Trust
2010 Annual Report
Management's Discussion and Analysis

Schedule I
Profile of Hotel Properties

Temple Gardens Mineral Spa Resort Hotel (Acquired on October 1, 2006)
The Temple Gardens Mineral Spa Resort Hotel is located in Moose Jaw, Saskatchewan and consists of a 179 guest rooms. The hotel also features a restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment centre and geo-thermal mineral water pool. The spa resort is well known for its mineral-rich, geo-thermal therapeutic waters.

Chateau Nova (Acquired on March 22, 2007)
The Chateau Nova hotel property is located in Yellowknife, Northwest Territories and consists of a four-storey, 60-room hotel complex known as Chateau Nova, and a three-storey, 20-room annex, known as Chateau Nova Suites. The property offers a full range of services, including a full service restaurant, lounge, room service, meeting and conference rooms, business centre, fitness centre and spa services. Chateau Nova and Chateau Nova Suites are located across from each other on Franklin Avenue, the main street of downtown Yellowknife.

Clearwater Suites (Acquired on March 30, 2007)
The Clearwater Suites hotel complex is a four-storey, 150-room extended stay hotel complex, located in Fort McMurray, Alberta, comprised of 117 one-bedroom units, 11 two-bedroom units and 22 studio units. The property is operated as an extended stay lodging complex to accommodate oil sands and major project staff who stay in Fort McMurray for periods of one week to several months. The property also includes a 75-stall underground parkade.

Franklin Suites (Acquired on April 30, 2007)
The Franklin Suites is a five-storey, 75-room hotel located in Fort McMurray, Alberta. The hotel contains a business centre, two meeting rooms totaling approximately 850 square feet and fitness facilities. The hotel also contains provision for a restaurant/coffee shop, which is not fully developed and is currently used to serve complimentary continental breakfast.

Merit Hotel and Suites (Acquired on April 30, 2007)
The Merit Hotel is a four-storey, full service hotel located in Fort McMurray, Alberta. The hotel offers a restaurant and lounge and also includes a business centre, two meeting rooms totaling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities. A 68-room expansion of the hotel was completed in August 2009, increasing the number of rooms to 160.

Nomad Hotel (Acquired on April 30, 2007)
The Nomad Hotel is a seven-storey, full-service hotel located in Fort McMurray, Alberta, comprised of 139 rooms. The hotel offers a Keg Restaurant, cafe and pub and also includes approximately 1,200 square feet of meeting space, business centre, indoor pool and fitness facilities.

Nomad Suites (Acquired on April 30, 2007)
The Nomad Suites is a four-storey, extended stay hotel located in Fort McMurray, Alberta, comprised of 27 rooms. The hotel also includes a small area for serving complimentary breakfast. The hotel's front desk and management operations are handled through the Nomad Hotel.

Vantage Inn & Suites (Acquired on January 31, 2008)
The Vantage Inn & Suites is a four-storey hotel located in Fort McMurray, Alberta. The hotel contains 83 rooms, meeting facilities, a sports bar, business centre, fitness centre and continental breakfast area.

Best Western Wayside Inn & Suites (Acquired on June 1, 2008)
The Best Western Wayside Inn & Suites is located on the Yellowhead Highway in Lloydminster, Alberta. The six-storey hotel contains 130 rooms, banquet and conference facilities for a maximum of 450 people, licensed restaurant, cocktail lounge, liquor store, indoor swimming pool and fitness centre.

Capri Centre (Acquired on December 30, 2008)
The Capri Centre is a full service hotel, trade and conference centre located in Red Deer, Alberta. The complex includes a 14-storey hotel with 218 rooms, including 22 suites, a 53,110 square foot conference centre, three restaurants, three lounges, an outdoor, heated whirlpool and exercise room, a leased gift shop, clothing store and hair salon and a free-standing liquor store.

MANAGEMENT'S RESPONSIBILITY

The financial statements contained in the annual report have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout the annual report is consistent with the information contained in the financial statements.

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

The financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

"Arni Thorsteinson"

Arni Thorsteinson
Chief Executive Officer

"Larry Beeston"

Larry Beeston
Chief Financial Officer

April 25, 2011

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS
100 - Five Donald Street
Winnipeg, Manitoba R3L 2T4
Telephone: (204) 982-9800
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www.scarrowdonald.mb.ca

April 26, 2011

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Temple Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Temple Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss) and comprehensive income (loss), equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Temple Real Estate Investment Trust as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED BALANCE SHEETS

	December 31 2010	December 31 2009
Assets		
Current assets		
Cash	**$ 4,096,958**	$ 7,401,442
Marketable securities (Note 3)	**575,515**	628,208
Accounts receivable (net of allowance for doubtful accounts of $139,386; 2009 - $102,057)	**3,038,065**	2,150,209
Income tax receivable	**31,537**	-
Inventories (Note 4)	**797,746**	716,220
Prepaid expenses	**1,324,817**	226,402
Current portion of net investment in lease (Note 5)	**139,133**	125,370
Defeasance assets (Note 6)	**-**	2,941,723
	10,003,771	14,189,574
Property and equipment (Note 7)	**242,440,745**	248,546,241
Net investment in lease (Note 5)	**4,377,463**	4,516,591
Other assets (Note 8)	**2,051,175**	952,794
Goodwill	**1,608,282**	1,608,282
	$260,481,436	$269,813,482
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 5,801,986**	$ 4,570,013
Gift certificate liability	**2,321,471**	2,132,718
Income taxes payable	**-**	135,042
Current portion of long-term debt (Note 9)	**69,101,469**	50,746,879
Defeased liability (Note 6)	**-**	2,834,896
	77,224,926	60,419,548
Long-term debt (Note 9)	**98,393,158**	118,051,239
Convertible debentures (Note 10)	**31,535,253**	30,391,822
Future income taxes (Note 11)	**3,095,271**	3,712,128
	210,248,608	212,574,737
Equity	**50,232,828**	57,238,745
	$260,481,436	$269,813,482

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31	
	2010	2009
Revenue		
Hotel revenue	$ 61,947,315	$ 63,134,474
Interest and other income	1,954,678	2,677,117
	63,901,993	65,811,591
Expenses		
Hotel operating costs	42,500,644	41,230,815
Operating income	21,401,349	24,580,776
Finance expense (Note 12)	16,259,269	15,521,431
Trust expense	770,047	709,711
Amortization	6,981,053	6,558,811
	24,010,369	22,789,953
Other		
Change in value of marketable securities	(52,950)	(288,375)
Income (loss) before income taxes	(2,661,970)	1,502,448
Income tax expense (recovery):		
Current (Note 11)	260,003	213,530
Future (Note 11)	(616,857)	384,640
	(356,854)	598,170
Net income (loss) and comprehensive income (loss)	$ (2,305,116)	$ 904,278
Net income (loss) per unit (Note 13)		
Basic and diluted	$ (0.18)	$ 0.07

CONSOLIDATED STATEMENTS OF EQUITY

	Year Ended December 31	
	2010	2009
Trust units (Note 14)		
Balance, beginning of period	$ 62,491,116	$ 62,590,168
Value associated with options exercised	15,274	-
Units issued on exercise of options	31,605	-
Units issued on conversion of debentures	214,390	85,597
Equity component of debentures converted	40,334	16,357
Unit issue costs	(14,754)	(201,006)
Balance, end of period	62,777,965	62,491,116
Unit based compensation (Notes 16 and 17)		
Balance, beginning of period	197,239	146,210
Value associated with unit options granted	139,187	-
Value associated with options exercised	(15,274)	-
Value associated with options expired	(11,986)	-
Value of deferred units	61,332	51,029
Balance, end of period	370,498	197,239
Equity component of convertible mortgage (Note 9)		
Balance, beginning of period	471,175	-
Equity component of convertible mortgage issued	-	471,175
Balance, beginning and end of period	471,175	471,175
Equity component of convertible debentures (Note 10)		
Balance, beginning of period	6,101,487	3,678,296
Equity component of convertible debentures issued	-	2,439,548
Equity component of debentures converted	(40,334)	(16,357)
Balance, end of period	6,061,153	6,101,487
Cumulative earnings and accumulated comprehensive earnings		
Balance, beginning of period	12,995,421	12,091,143
Value associated with options expired	11,986	-
Net income (loss)	(2,305,116)	904,278
Balance, end of period	10,702,291	12,995,421
Cumulative distributions to unitholders		
Balance, beginning of period	(25,017,693)	(18,607,684)
Distribution to unitholders	(5,132,561)	(6,410,009)
Balance, end of period	(30,150,254)	(25,017,693)
Total unitholders' equity	$ 50,232,828	$ 57,238,745
Units issued and outstanding (Note 14)	12,903,795	12,825,352
Deferred units outstanding (Note 17)	39,826	18,288

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2010	2009
Cash provided by (used in) operating activities		
Net income (loss) and comprehensive income (loss)	$ (2,305,116)	$ 904,278
Items not affecting cash		
Amortization	6,981,053	6,558,811
Amortization of transaction costs	1,011,751	924,520
Accretion on debt component of convertible debentures	1,019,637	632,346
Accretion on debt component of convertible mortgage	84,177	35,490
Unit based compensation	200,519	51,029
Change in fair value of marketable equity securities	52,950	288,375
Future income taxes	(616,857)	384,640
	6,428,114	9,779,489
Changes in non-cash operating items	(954,144)	1,759,824
	5,473,970	11,539,313
Cash provided by (used in) financing activities		
Proceeds of long-term debt	5,000,000	3,000,000
Repayment of mortgage loan on refinancing	-	(2,000,000)
Repayment of mortgage loan from proceeds of mortgage loan receivable	-	(6,184,147)
Lump sum mortgage loan payments	(1,155,000)	-
Scheduled principal repayment of long-term debt	(5,785,936)	(5,408,023)
Proceeds of convertible debentures	-	15,000,000
Repayment of mortgage loans from debenture proceeds	-	(8,815,853)
Exercise of options	31,605	-
Unit issue costs	(235)	(196,376)
Decrease in defeased liability	(2,849,560)	(395,444)
Expenditures on transaction costs	(120,157)	(1,442,759)
Distributions paid on trust units	(5,132,561)	(6,410,009)
	(10,011,844)	(12,852,611)
Cash provided by (used in) investing activities		
Additions to property and equipment	(875,557)	(2,321,511)
Receipt of net investment in lease	125,365	116,820
Change in cash in escrow	(958,141)	(98,156)
Purchase of marketable securities	-	(6,458)
Return of capital from marketable equity securities	-	73,725
Decrease in defeasance assets	2,941,723	563,887
Proceeds from expropriated land	-	811,615
Deposits on potential acquisitions	-	750,000
Receipt of mortgage loan receivable	-	6,000,000
	1,233,390	5,889,922
Change in cash	(3,304,484)	4,576,624
Cash, beginning of period	7,401,442	2,824,818
Cash, end of period	$ 4,096,958	$ 7,401,442
Supplementary cash flow information		
Interest paid	$ 14,286,446	$ 13,526,041
Income taxes paid	$ 411,492	$ 238,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

1 Basis of presentation

Temple Real Estate Investment Trust ("the Trust") is an open-end real estate investment trust established under the laws of the Province of Manitoba on July 12, 2006.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements of the Trust includes the accounts of the Trust's wholly-owned subsidiaries TR Trust, Temple Limited Partnership, Temple General Partner Inc. and Temple Gardens Mineral Spa Inc., with provision for its indirect 50% proportionate share of assets, liabilities, revenues and expenses of the Moose Jaw Casino Co-ownership. All significant intercompany balances and transactions have been eliminated upon consolidation.

2 Significant accounting policies

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Accounting estimates
Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

Financial Instruments
The Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash	Held-for-trading	Fair value
Marketable securities	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Cash in escrow	Held-for-trading	Fair value
Defeasance assets	Held-to-maturity	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Defeased liability	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

The Trust assesses impairment of all it financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value and is included in net income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

2 ***Significant accounting policies (continued)***

Fair Value
The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Inventories
Inventories of supplies and goods for sale are stated at the lower of cost and net realizable value, on a first-in, first-out basis. The costs of inventories comprise the purchase price, import duties and other non-recoverable taxes and transportation and handling costs.

Property and equipment
Property and equipment are recorded at cost. Property and equipment are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in net income in the period in which it became known. The Trust provides for amortization on fixed assets so as to apply the cost of the assets over the estimated useful lives as follows:

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Goodwill
Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized. Management compares the carrying amount of goodwill to the estimated fair value and recognizes in net income any impairment in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

2 Significant accounting policies (continued)

Gift certificate liability
Gift certificates are recorded as a liability when sold and revenue is recognized upon redemption of the gift certificate. Gift certificates are recognized as revenue if not redeemed within three years from the date of issue. It is management's opinion that there is no liability for a gift certificate beyond its expiry date.

In determining the estimated revenue in conjunction with gift certificate liabilities, the Trust relies on assumptions regarding applicable industry performance and redemption rates, as well as general business and economic conditions that prevail or are expected to prevail. Assumptions underlying the measurement of gift certificate liabilities are limited by the uncertainty of predictions concerning future events. By its nature the evaluation of gift certificate liability is subjective and does not necessarily result in precise determinations. Should an adjustment become necessary it will be adjusted in the period known.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 10. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

Unit options and warrants
The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. Compensation expense for option based compensation awards is recognized when unit options are granted over the vesting periods. The fair value of the unit options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model. On exercise of unit options, consideration received and the accumulated unit options amount relating thereto is credited to trust units. Awards of options and warrants related to private placements or public offerings of units are treated as unit issue costs.

Per unit calculations
Per unit amounts are calculated using the weighted average number of units outstanding during the year including vested deferred units. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Revenue recognition
Revenue from services provided and products sold is recognized at the time the service is provided and the products are delivered to the customer. Interest income is recognized on a time proportion basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

2 Significant accounting policies (continued)

Income taxes
In accordance with the terms of the Declaration of the Trust, the Trust intends, whenever possible, to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act.

In June 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts was enacted. Under the new rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid as returns of capital will not be subjected to this tax.

The new rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its income and investments (a "Qualifying REIT"). The legislation does not apply to the Trust until 2011 as it provides for a transition period for publicly traded entities that existed prior to November 1, 2006. In the opinion of management, the Trust will not satisfy the prescribed conditions of a Qualifying REIT and will, therefore, be treated as a SIFT for income tax purposes commencing January 1, 2011.

As the Trust does not meet the criteria for a Qualifying REIT, GAAP requires that the Trust and its wholly owned subsidiaries perform a future income taxes asset and liabilities calculation as follows:

(i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP;
(ii) determine the periods over which those temporary differences are expected to reverse; and
(iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse.

The Trust and its wholly owned subsidiaries are required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset, if the asset is more likely than not be realized, or liability.

Comprehensive income
The Trust does not have any other comprehensive income or accumulated other comprehensive income.

Future changes to significant accounting policies
The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting in Canada. As part of that plan, accounting standards for public entities will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The Trust will convert to International Financial Reporting Standards for its 2011 year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 *Marketable securities*

	December 31 2010	December 31 2009
Marketable equity securities	$ 250,500	$ 303,450
Guaranteed investment certificates	325,015	324,758
	$ 575,515	$ 628,208

Marketable equity securities are recorded at fair value based on published market value and are classified as held-for-trading financial instruments. The investments were written down from their carrying value by $52,950 for the year ended December 31, 2010 (2009 - $288,375).

Guaranteed investment certificates bear interest at 0.001% - 1.000% (December 31, 2009 - 0.001% - 2.15%) with maturity dates in 2011 (December 31, 2009 - 2010).

4 *Inventories*

During the year ended December 31, 2010, cost of sales related to inventory was $7,014,898 (2009 - $7,137,784) and is included in hotel operating costs in the financial statements.

5 *Net investment in lease*

In 2002, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of $1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income. The effective interest rate of the net investment in lease is 7.31%.

Interest income from the lease for the year ended December 31, 2010 was $324,635 (2009 - $333,179) and is included in interest and other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 *Net investment in lease (continued)*

The net investment in lease includes the following:

	December 31 2010	December 31 2009
Total minimum lease payments receivable	$ 7,537,500	$ 7,987,500
Unearned income	(3,020,904)	(3,345,539)
Net investment in lease	4,516,596	4,641,961
Less current portion	(139,133)	(125,370)
	$ 4,377,463	$ 4,516,591

The Trust's proportionate share of future minimum lease payments is $450,000 per annum through October 2011 escalating to $477,500 until the end of the lease term, October 1, 2026.

6 *Defeasance assets and defeased liability*

In conjunction with the refinancing of the Merit and Nomad hotels on September 24, 2007, an existing $3,690,806 loan was defeased. The defeased loan was payable in monthly payments of $56,551 including interest at 9.41% was originally amortized over 15 years and was due April 1, 2010. The Trust purchased Government of Canada bonds in the amount of $4,151,677 and pledged them as security to the debtholder. The bonds matured between June 1, 2009 and December 1, 2009, had a weighted average interest rate of 4.14% and were placed in escrow. The defeasance assets and the defeased liability were measured at amortized cost using the effective interest rate method of amortization until April 1, 2010 at which time the assets were realized and the debt was extinguished.

The following table reflects the effect of the defeasance asset and the defeased liability.

		Year Ended December 31	
	Recorded as	2010	2009
Interest income on defeasance assets	Interest and other income	$ 2,370	$ 114,730
Interest expense on defeased liability	Finance expense	(64,172)	(280,129)
Amortization of transaction costs	Finance expense	(14,664)	(41,389)
		$ (76,466)	$ (206,788)

The unamortized balance of the defeasance transaction costs is $nil (2009 - $14,664).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7 *Property and equipment*

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Land	$ 28,200,924	$ -	$ 28,200,924
Buildings	225,520,317	(18,593,920)	206,926,397
Furniture and equipment	10,776,435	(3,463,011)	7,313,424
	$264,497,676	$ (22,056,931)	$242,440,745

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 28,200,924	$ -	$ 28,200,924
Buildings	224,831,975	(12,696,248)	212,135,727
Furniture and equipment	10,628,365	(2,418,775)	8,209,590
	$263,661,264	$ (15,115,023)	$248,546,241

Amortization of property and equipment consists of the following:

	Year Ended December 31 2010	2009
Buildings	$ 5,897,673	$ 5,565,388
Furniture and equipment	1,083,380	993,423
	$ 6,981,053	$ 6,558,811

8 *Other assets*

	December 31 2010	December 31 2009
Cash in escrow	$ 1,725,608	$ 767,467
Deposits and other	231,342	91,102
Franchise application fee	94,225	94,225
	$ 2,051,175	$ 952,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 *Long-term debt*

Long-term debt consists of the following:

	December 31 2010	December 31 2009
First mortgage loans secured by specific hotel properties bearing interest at fixed rates between 4.32% and 6.83% weighted average interest rate - 6.24% (2009 - rates between 5.06% and 6.83%, weighted average interest rate - 6.35%) and maturing between March 30, 2011 and August 1, 2014.	$149,271,037	$150,375,362
Moose Jaw Casino Co-ownership - 7.08% loan payable, maturing September 1, 2027 secured by a specific assignment of the Saskatchewan Gaming Corporation lease.	3,655,886	3,767,269
12% Second mortgage loan - secured by a specific hotel property with payments of interest only, maturing June 30, 2011 (Note 23).	6,540,000	7,040,000
6% Second mortgage loan - secured by a specific hotel property, maturing December 31, 2013.	4,579,693	4,804,919
4.5% Convertible mortgage loan - secured by a specific hotel property with payments of interest only, $4,500,000 face value maturing July 31, 2014. The mortgage loan is convertible to trust units at any time during its term at a price of $15.00 at the option of the lender. $471,175 was allocated to equity on issuance of the debt for an estimated cost of borrowing of 7.0%.	4,148,492	4,064,315
	168,195,108	170,051,865
Transaction costs	(700,481)	(1,253,747)
Less current portion - net of transaction costs of $383,001 (December 31, 2009 - $522,700)	(69,101,469)	(50,746,879)
	$ 98,393,158	$118,051,239

Approximate principal repayments are as follows:

12 months ending December 31	
2011	$ 69,484,470
2012	51,033,405
2013	33,822,119
2014	11,082,540
2015	157,729
Thereafter	2,966,353
	$168,546,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 ***Long term debt (continued)***

Mortgage loans are secured by mortgage charges registered against specific income properties and are also secured by assignments of book debts and inventories.

As a condition of some long-term debt arrangements, the Trust is required to maintain certain debt service coverage ratios and certain debt to equity ratios. In addition, capital expenditures must not exceed certain maximums. Except as noted below, the Trust was in compliance of all covenants as of December 31, 2010.

The Trust was not in compliance on three first mortgage loans in the amount of $48,092,524, as of December 31, 2010 as a result of a breach of the debt service coverage requirement in respect of such mortgage loans. In accordance with GAAP, the balance of the mortgage loans which are in breach of debt service coverage requirements are included in principal repayments in 2010.

In regard to one mortgage loan in the amount of $32,424,610 the Trust notified the lender on August 17, 2010 of the breach of the debt service coverage requirement and on September 2, 2010, the lender issued a formal notice of default. The lender did not demand the loan or accelerate mortgage payments under the loan. All payments of principal and interest were made as scheduled. On March 30, 2011 the loan matured and was renewed. The renewal of the mortgage loan resolved the covenant breach in regard to this loan.

Transaction costs are incremental costs that are directly attributable to the acquisition of mortgage financing and include both fees and charges, brokerage fees and commissions, legal fees, advisor and similar costs. Transaction costs are amortized over the term of the respective mortgages using the effective interest method. The transaction cost amortization for the year ended December 31, 2010 amounted to $596,137 (2009 - $670,424).

10 ***Convertible debentures***

As of December 31, 2010, the Trust has three series of convertible debentures outstanding:

Series A
The Trust issued $15,680,000 of Series A convertible redeemable debentures by way of private placement on February 15, 2007. The debentures are unsecured, bear interest at 7.5% payable semi-annually and mature on March 31, 2012. The debentures are convertible to trust units at any time during their term at a price of $5.75 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from March 31, 2010 and prior to March 31, 2011, providing that the 20-day weighted average trading price of the units is at least $7.1875 and, on or after March 31, 2011, at their principal amount.

During the year ended December 31, 2010 and year ended December 31, 2009 there were no conversions of Series A debentures.

In accordance with the terms of the trust indenture for the Series A debentures, the Trust has an option to repay the principal amount of the debentures, in whole or in part, by the issue of units, on the maturity of the Series A debentures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 Convertible debentures (continued)

Series B
The Trust issued $30,000,000 of Series B convertible redeemable debentures by way of private placement on April 8, 2008. The debentures are unsecured, bear interest at 8.5% semi-annually and mature on April 30, 2013. The debentures are convertible to trust units at any time during their term at a price of $7.50 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from April 30, 2011 and prior to April 30, 2012, providing that the 20-day weighted average trading price of the units is at least $9.375 and, on or after April 30, 2012, at their principal amount.

During the year ended December 31, 2010, there were no conversions of Series B debentures.

During the year ended December 31, 2009, $100,000 of Series B debentures were converted to 13,333 trust units.

In accordance with the terms of the trust indenture for the Series B debentures, the Trust has an option to repay the principal amount of the debentures, in whole or in part, by the issue of units, on the maturity of the Series B debentures.

Senior Secured Convertible Redeemable
The Trust issued $15,000,000 of senior secured convertible redeemable debentures by way of public offering on November 27, 2009. The debentures are secured by a secondary charge on certain hotel properties, bear interest at 8.75% semi-annually and mature on November 30, 2014. The debentures are convertible to trust units at any time during their term at a price of $3.65 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from November 30, 2012 and prior to November 30, 2014, providing that the current trading price of the units is at least $4.5625 and, on or after November 30, 2013, at their principal amount.

During the year ended December 31, 2010, $248,000 of senior secured convertible redeemable debentures were converted to 67,943 trust units.

During the year ended December 31, 2009 there were no conversions of senior secured convertible redeemable debentures.

The following schedule allocates the convertible debentures between the debt and equity components on the basis of the net present value of future interest and principal payments at an estimated cost of borrowing without conversion option as reflected in the schedules:

December 31, 2010	Estimated Cost of Borrowing	Debt	Equity	Total	Face Value
Series A	12.00 %	$ 2,361,125	$ 412,489	$ 2,773,614	$ 2,464,500
Series B	13.00 %	17,956,132	3,249,450	21,205,582	19,866,100
Senior Secured	13.25 %	12,751,089	2,399,214	15,150,303	14,752,000
Transaction costs		(1,533,093)	-	(1,533,093)	-
		$31,535,253	$ 6,061,153	$37,596,406	$ 37,082,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 Convertible debentures (continued)

December 31, 2009	Estimated Cost of Borrowing	Debt	Equity	Total	Face Value
Series A	12.00 %	$ 2,259,094	$ 412,489	$ 2,671,583	$ 2,464,500
Series B	13.00 %	17,410,097	3,249,450	20,659,547	19,866,100
Senior Secured	13.25 %	12,593,908	2,439,548	15,033,456	15,000,000
Transaction costs		(1,871,277)	-	(1,871,277)	-
		$30,391,822	$ 6,101,487	$36,493,309	$ 37,330,600

Transaction costs are incremental costs that are directly attributable to issuance of convertible debentures and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. Transaction costs are amortized over the term of the debenture using the effective interest method. The transaction cost amortization for the year ended December 31, 2010 amounted to $400,950 (2009 - $212,707).

The accretion of the debt component for the year ended December 31, 2010 of $1,019,637 (2009 - $632,346), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures.

The Senior Secured debentures provide that for the outstanding amount of the debentures may become payable on demand upon default and acceleration, under certain terms and conditions, of a mortgage loan. At December 31, 2010, the Trust was not in compliance with three first mortgage loans totaling $48,092,524 as a result of a breach of the debt service coverage requirements in respect of such mortgage loans. If, at a future date, the lenders demand the repayments of any of the loans, the Senior Secured debentures, with a face value of $14,752,000 may become payable on demand.

11 Future income taxes and income tax expense (recovery)

The future tax liability of the Trust and its wholly owned subsidiary corporations consists of the following:

	December 31 2010	December 31 2009
Tax liability related to difference in tax and book values	$ 5,568,774	$ 5,092,306
Tax asset related to deductible issue costs	(214,330)	(520,393)
Tax asset related to income tax loss carryforward	(2,259,173)	(859,785)
	$ 3,095,271	$ 3,712,128

The expected tax rates applicable to SIFT's of 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that temporary tax differences of the Trust are expected to reverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 *Future income taxes and income tax expense (recovery) (continued)*

Income tax expense (recovery) consists of the following:

	Year Ended December 31	
	2010	2009
Income tax computed at the Canadian statutory rate of nil applicable to the Trust for 2010 and 2009	$ -	$ -
Change in future income tax liability arising from change in estimate of temporary differences expected to reverse in or after 2011	(596,058)	426,784
Future income tax applicable to Temple Gardens Mineral Spa Inc.	(20,799)	(42,144)
	(616,857)	384,640
Current income tax applicable to Temple Gardens Mineral Spa Inc. at the statutory rate of 30.0% (2009 - 31.0%)	260,003	213,530
	$ (356,854)	$ 598,170

12 *Finance expense*

Financing costs are comprised of the following:

	Year Ended December 31	
	2010	2009
Mortgage loan interest	$ 10,899,001	$ 11,540,203
Accretion of the debt component of convertible mortgage loan	84,177	35,490
Defeasance mortgage interest	64,172	280,129
Interest on debentures	3,180,531	2,108,743
Accretion of the debt component of convertible debentures	1,019,637	632,346
Amortization of transaction costs	997,087	883,131
Amortization of defeasance transaction costs	14,664	41,389
	$ 16,259,269	$ 15,521,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units and deferred units (Note 17) outstanding for the period. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income (loss) per unit calculations are based on the following:

	Year Ended December 31	
	2010	2009
Income (loss) and diluted income (loss)	$ (2,305,116)	$ 904,278
Weighted average number of units - basic and diluted	12,855,117	12,829,587

The following securities were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive.

	Exercise/Conversion Price	Number of units if converted or exercised at December 31, 2010
Unit options		
	$ 3.00	7,666
	$ 3.01	67,000
	$ 3.93	25,000
	$ 5.00	100,000
	$ 6.19	335,000
Convertible debentures		
Series A	$ 5.75	428,609
Series B	$ 7.50	2,648,813
Senior Secured	$ 3.65	4,041,644
Convertible mortgage loan	$ 15.00	300,000

14 *Trust units*

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Units	Amount	Units	Amount
Outstanding, beginning of period	12,825,352	$ 62,491,116	12,812,019	$ 62,590,168
Units issued on exercise of options	10,500	31,605	-	-
Value associated with options exercised		15,274		-
Units issued on conversion of debentures	67,943	214,390	13,333	85,597
Equity component of debentures converted		40,334		16,357
Unit issue costs		(14,754)		(201,006)
Outstanding, end of period	12,903,795	$ 62,777,965	12,825,352	$ 62,491,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15 *Distributions*

The Trust makes distributions on its units in accordance with the Declaration of Trust, at the discretion of the Trustees.

The following table reflects a comparison of taxable income to distributions declared.

	Year Ended December 31	
	2010	2009
Business income	$ -	$ -
Dividend income	1,331,114	-
Taxable capital gain	-	-
	$ 1,331,114	$ -
Actual distributions	$ 5,132,561	$ 6,410,009

16 *Unit options*

Option plan

The Trust may grant options to trustees, senior officers, employees of the Trust or of a subsidiary of the Trust, management company employees of the Trust or any subsidiary of the Trust investor relations' consultants and technical consultants to the Trust.

The maximum number of units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding units. The maximum number of units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding units provided that person is other than a consultant or person employed in investor relations activities and 2% of the total number of issued and outstanding units for all consultants and persons employed in investor relations activities.

The Trustees set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the shares. The discounted market price is the market price of the shares, less a discount, which shall not exceed 25% if the market price is $0.50 or less, 20% if the market price is from $0.51 to $2.00, and 15% if the market price is above $2.00 as determined under the policies of the Exchange.

The options have a maximum term of five years from the date of grant unless otherwise specifically provided by the Board of Trustees and authorized by the Exchange. For a participant employed in investor relations activities, no option shall be exercisable for a period exceeding 12 months from the date of grant, with no more than 1/4 of the options vesting in any three-month period.

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16 Unit options (continued)

Unit options

	Year Ended December 31, 2010		Year Ended December 31, 2009	
	Unit options	Weighted Average Exercise Price	Unit options	Weighted Average Exercise Price
Outstanding, beginning of period	467,666	$ 5.86	467,666	$ 5.86
Unit options granted during period	105,000	3.23	-	-
Unit options exercised during period	(10,500)	3.01	-	-
Unit options expired during period	(27,500)	5.51	-	-
Unit options outstanding and vested, beginning and end of period	534,666	$ 5.42	467,666	$ 5.86
Weighted average remaining life (years)	2.28		2.85	

On January 12, 2010, the Trust granted options to purchase 80,000 units at $3.01 per unit. The options vest immediately and will expire five years from the date they were granted. The fair value of $116,370 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 200% on the underlying units, a dividend yield rate of 13.25% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

On December 15, 2010, the Trust granted options to purchase 25,000 units at $3.93 per unit. The options vest immediately and will expire five years from the date they were granted. The fair value of $22,817 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 50% on the underlying units, a dividend yield rate of 10.18% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17 *Deferred unit plan*

The Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultants of the Trust have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The fair value based method of accounting is applied to all unit-based compensation. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Compensation expense is recognized when deferred units are granted. On the redemption of deferred units, the accumulated deferred unit value is credited to the units of the Trust.

The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees for the year ended December 31, 2010, totaled 21,538 units (2009 - 18,288). The Trust expensed $61,332 (2009 - $51,029) for the year ended December 31, 2010 of unit based compensation related to the deferred unit plan which was included in Trust expenses in the consolidated statements of income and comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18 Related party transactions

Asset management agreement
The Trust entered into an asset management agreement, for an initial term expiring October 1, 2011, with Shelter Canadian Properties Limited, a unitholder. The agreement was renewed for a second term expiring October 1, 2016. The agreement provides for Shelter to receive an asset management fee of 1.5% of the gross revenues of the Trust and its subsidiaries on a consolidated basis. The asset management agreement requires Shelter to act as administrator of the Trust by providing accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Trust.

The Trust incurred service fees to Shelter Canadian Properties Limited of $963,666 for the year ended December 31, 2010 (2009 - $997,779). Included in accounts payable and accrued liabilities is $514,665 (December 31, 2009 - $245,750) due to Shelter Canadian Properties Limited.

19 Investment in co-ownership

Temple Gardens Mineral Spa Inc. is a party to a co-ownership agreement in regard to the Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls which is leased to the Saskatchewan Gaming Commission. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of $1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Summarized financial information of the Trust's interest in a jointly controlled entity, which has been proportionately consolidated, is as follows:

	Year ended December 31	
	2010	2009
Assets	$ 4,550,039	$ 4,777,450
Liabilities	$ 3,679,076	$ 3,791,053
Net income	$ 64,297	$ 82,684
Cash flow from operations	$ 62,356	$ (12,951)
Cash flow from investing	$ 125,365	$ 116,821
Cash flow from financing	$ (185,183)	$ (103,898)

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20 *Risk management and fair values*

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk
The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to Unitholders, and possible property acquisition funding requirements. Revenues from hotel operations tend to fluctuate throughout the year, with greater demand in the last three quarters of the calendar year.

The above liquidity needs are funded from cash flows from operations, with the exception of debt repayment obligations and property acquisition funding requirements which are funded from refinancing the Trust's maturing debt or financing unencumbered properties. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include raising new equity by issuing Units. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favourable to the Trust.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. The following are the estimated maturities of the Trust's financial liabilities with convertible debentures and the convertible mortgage loan disclosed at their face value as at December 31, 2010:

	Total	1 year	2 years	3 years	4 years	5 years	Thereafter
Accounts payable and accrued liabilities	$ 5,801,986	$ 5,801,986	$ -	$ -	$ -	$ -	$ -
Long-term debt	168,546,616	69,484,470	51,033,405	33,822,119	11,082,540	157,729	2,966,353
Convertible debentures	37,082,600	-	2,464,500	19,866,100	14,752,000	-	-
Total	$211,431,202	$75,286,456	$53,497,905	$53,688,219	$25,834,540	$ 157,729	$ 2,966,353

Interest rate risk
Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Obtaining long-term mortgages with fixed interest rates minimizes interest rate cash flow risk.

Market risk
Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, currency risk, and other price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

20 Risk management and fair values (continued)

Credit risk
Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses.

The Trust has credit policies to address credit risk, which are applied when granting credit and does include the analysis of the financial position of the debtor and review of credit limits. The Trust also does review credit history and credit performance as part of the credit accreditation process. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The following is an aging of rents receivable past due but not impaired:

	December 31 2010	December 31 2009
Accounts receivable:		
0 to 30 days overdue	$ 404,892	$ 125,163
More than 30 days overdue	247,203	112,897
	$ 652,095	$ 238,060

The following is an analysis of bad debt charges to income included in hotel operating costs:

	Year Ended December 31	
	2010	2009
Amounts charged to income	$ 44,723	$ (7,005)
Percent of hotel revenue	0.07%	(0.01%)

Currency risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust has no transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to other price risk.

Fair values
Financial instruments include cash, accounts receivable, investment in marketable securities, cash in escrow, defeasance assets, accounts payable, long-term debt, defeased liability, and the debt component of convertible debentures payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 *Risk management and fair values (continued)*

The following schedule summarizes the method used to determine the fair value of financial instruments which are carried at fair value.

	December 31, 2010		December 31, 2009	
	Quoted Prices	Observed Inputs	Quoted Prices	Observed Inputs
Cash	$ 4,096,958	$ -	$ 7,401,442	$ -
Marketable securities	250,500	325,015	303,450	324,758
Cash in escrow	1,725,608	-	767,467	-

The carrying values of accounts receivable, accounts payable, defeasance assets and defeased liability approximate fair value due to the short term nature of such financial instruments.

The carrying value of the long-term debt are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of long-term debt has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of long-term debt as at December 31, 2010 is $169,591,000 (December 31, 2009 - $175,832,017).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable as at December 31, 2010 is $36,985,000 (December 31, 2009 - $34,066,577).

The fair value of the defeasance assets and the defeased liability was nil on a net basis as there was no cash flow impact to the Trust from the defeasance assets or defeased liability.

21 *Segmented financial information*

The assets are located in and revenue is derived from the operation of hotels in Canada.

Year ended December 31, 2010:

	Fort McMurray	Other	Trust	Total
Hotel revenue	$ 21,494,779	$ 40,452,536	$ -	$ 61,947,315
Interest and other income	703,699	1,235,714	15,265	1,954,678
Property operating costs	11,699,873	30,800,771	-	42,500,644
Operating income	10,498,605	10,887,479	15,265	21,401,349
Financing expense	7,065,897	4,592,254	4,601,118	16,259,269
Amortization	4,391,864	2,589,189	-	6,981,053
Trust expenses	-	-	770,047	770,047
Change in marketable securities	-	-	(52,950)	(52,950)
Income taxes	-	239,204	(596,058)	(356,854)
Income (loss)	$ (959,156)	$ 3,466,832	$ (4,812,792)	$ (2,305,116)
Total assets	$155,920,295	$103,924,312	$ 636,829	$260,481,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 Segmented financial information (continued)

Year ended December 31, 2009:

	Fort McMurray	Other	Trust	Total
Hotel revenue	$ 23,722,001	$ 39,412,473	$ -	$ 63,134,474
Interest and other income	806,519	1,417,832	452,766	2,677,117
Property operating costs	12,284,109	28,946,706	-	41,230,815
Operating income	12,244,411	11,883,599	452,766	24,580,776
Financing expense	8,068,811	4,458,343	2,994,277	15,521,431
Amortization	3,994,979	2,563,832	-	6,558,811
Trust expenses	-	-	709,711	709,711
Change in marketable securities	-	-	(288,375)	(288,375)
Income taxes	-	171,386	426,784	598,170
Income (loss)	$ 180,621	$ 4,690,038	$ (3,966,381)	$ 904,278
Total assets	$161,129,757	$104,551,994	$ 4,131,731	$269,813,482

22 Management of capital

The capital structure of the Trust is comprised of the following:

	December 31 2010	December 31 2009
Mortgage debt	$ 167,494,627	$ 168,798,118
Convertible debentures	31,535,253	30,391,822
Unitholders' equity	50,232,828	57,238,745
Total	$ 249,262,708	$ 256,428,685

The Trust manages capital in order to safeguard its ability to continue as a going concern; to help ensure that returns are provided to Unitholders, and to help ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of offering of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the hotel portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust allows total mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- The Trust will endeavour to obtain a fixed rate of interest.
- Mortgage due dates are structured to reflect the nature of the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to manage refinancing risk.

As of December 31, 2010 and December 31, 2009, total mortgage indebtedness was 55% and 54% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

22 *Management of capital (continued)*

The Trust monitors capital from time-to-time using a variety of measures which are applicable to the hotel industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to shareholders; return capital to shareholders; or reduce debt.

Market requirements for attracting capital may vary and may not be accurately predicted by the Trust.

23 *Commitments and contingencies*

Operating lease agreements
The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments over the next five years.

2011	511,453
2012	162,567
2013	46,108
2014	27,405
2015	18,459

Operating cost agreements
The Trust has entered into commitments to fix natural gas rates at $8.85 per gigajoule at Temple Gardens Mineral Spa until October 2012.

The Trust has entered into a Water Supply Contract with the Saskatchewan Water Corporation to purchase geo-thermally heated mineralized water at Temple Gardens Mineral Spa from wells owned by the City of Moose Jaw until May 31, 2020. The Water Supply Charge shall be set from time to time by the Saskatchewan Water Corporation at its sole discretion.

The Trust has entered into commitments to obtain natural gas supplies for all Alberta hotels at a cost which will not exceed $7.50 per gigajoule for a term expiring September 30, 2013.

The commitments are in accordance with the Trust's expected usage requirements.

Hotel management
Temple REIT has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. For the year ended December 31, 2010, the Trust paid management fees of $1,444,321 (2009 - $1,463,979).

Contingencies
In the normal course of operations, the Trust will become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Although the outcome of legal and other claims are not reasonably determined, management believes that any such outcome will not be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24 Subsequent events

Unit offering
On February 4, 2011, the Trust filed a short-form prospectus related to the public offering of a minimum of 2,000,000 and a maximum of 5,000,000 trust units out of treasury at a price of $4.00 per unit.

The offering was fully subscribed at the maximum 5,000,000 units and closed on February 11, 2011 and raised gross proceeds of $20,000,000. Commissions paid to the agents related the offering were $1,100,000 and approximately $257,000 in professional fees and expenses were incurred resulting in net cash proceeds of $18,643,000. The net cash proceeds were used to make a lump sum prepayment of $9,000,000 on long-term debt, retire $6,540,000 in long-term debt and to improve working capital.

Long-term debt
On February 11, 2011, the $6,540,000 second mortgage loan secured by the Merit Hotel in Fort McMurray maturing June 30, 2011 was prepaid in full without penalty. The loan had been renewed on October 31, 2010 bearing interest at 15% per annum with the condition that the interest rate would be reduced to 12% per annum if the loan is repaid prior to February 28, 2011. As the Trust complied with the terms of the prepayment option, the interest rate was reduced to 12% from the date of renewal.

The first mortgage loan of $32,424,610 secured by the Clearwater Hotel due March 30, 2011 was partially prepaid without penalty by $9,000,000 on February 11, 2011. The balance of loan of $23,058,327 was renewed until December 31, 2011 under similar terms and conditions.

The first mortgage loan of $4,900,621 at December 31, 2010, secured by the Temple Gardens Mineral Spa was renewed until May 1, 2012.

Unit options
Subsequent to December 31, 2010, 11,666 unit options were exercised for gross proceeds of $35,038.

Convertible debentures
Subsequent to December 31, 2010, $951,985 of senior secured convertible redeemable debentures were converted into 260,817 units.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of Temple REIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of Temple REIT are Ms. Rosanne Hill Blaisdell, Mr. Gary Buckley, Mr. David Drybrough, Mr. Rod Marlin and Mr. Arni Thorsteinson. Ms. Hill Blaisdell is the Managing Director for Harvard Buildings Inc. and Vice President of Leasing for Harvard Developments. Mr. Buckley is the owner of the Elkhorn Resort and Conference Centre and the owner/operator of various other real estate properties. Mr. Drybrough was Vice President of Gendis Inc. prior to his retirement in January 2004. Mr. Marlin is the former President, CEO and Director of Eveready Inc.(formerly Eveready Income Fund). Mr Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of Temple REIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer of Temple REIT is Mr. Larry Beeston, CA, Senior Manager - Financial Reporting for Shelter Canadian Properties Limited.

Asset Manager of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Asset Management Agreement, to provide asset management services, to administer the daily affairs of Temple REIT and to perform the accounting and reporting functions of Temple REIT.

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Securities Listings

TSX Venture Exchange
Unit trading symbol: TR.UN
Debenture trading symbol: TR.DB.A
TR.DB.B
TR.DB.S

Unitholder and Investor Contact

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